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NATIONAL AFFAIRS, POLICY

Journal Analyzes Current Economic Situation

HK0301050093 Beijing JINGJI GUANLI in Chinese
No 9, 5 Sep 92 pp 4-8, 22

[Article by Economic Research Institute Comprehensive Office under the State Planning Commission, edited by Zhou Shuai (0719 3219 8302): "An Analysis of the Current Macroeconomic Situation and Recommendations Thereon"]

[Text] The year 1991 was a turning point for our country's economy which marked the end of a two-year period of low growth rate giving rise to insufficient effective total demand, and the beginning of another period of high-speed growth. Since the beginning of this year, industrial growth has gone from last year's steady growth back to a high growth rate. From January to May, the growth rate of output value of industry at the township level and above (same below) throughout the country set a record for the same period in any year since 1986, reaching 17.9 percent. As the demand structure which gave rise to this high economic growth rate has seen a historic change and resource supplies have seen certain guarantees, it has meant that the economic growth mode this year, the growth structure, and the effect this has had on the balancing of overall volumes are all different from those during the period of high growth rate from 1985 to 1988. Economic activity will not only quickly experience overheating but also the relatively relaxed environment of basic balance between total supply and total demand will see sustained growth for quite a long time. This undoubtedly provides beneficial conditions for our country to accelerate development. However, seen from the current results of economic growth, we have still not escaped from the operational situation of high growth rate but poor results and the structural contradictions have become more prominent. This also shows that the accelerated development of our country's economy can no longer be established on an extensive base and also that changing from an extensive form to an intensive form of growth must have the acceleration of reform as a precondition.

I. Basic Characteristics of Current Economic Situation

1. The high industrial growth rate is characterized by priority growth in heavy industry and the formation of the new growth structure has its origins in changes in the demand structure.

For nine successive months, from September 1991 to May this year, the comparable growth rate in heavy industry exceeded that of light industry. Seen from the output value structure, comparing the period January to May 1992 with the same period in the previous year, the respective growth rates of light and heavy industry were 15.8 and 20 percent. In April and May, the growth in heavy industry was respectively 3.6 and 5.5 percentage points higher than that of light industry. The high growth

rate in heavy industry meant that the industrial growth of the various ownership systems tended toward balance. The growth rate in whole-people industry was quite high, reaching 12.8 percent, higher than the national average. Viewed from the product mix angle, the production of heavy industrial products saw a great increase. The production of investment-type raw materials grew 15 to 19 percent, while electrical and mechanical equipment products grew by 30 to 49 percent. In light industry production, apart from some newly popular consumer products (such as air conditioners and video recorders) which saw quite high growth rates, in general the production of light industry products saw a static situation or even a decline. Viewed from the production-sales rates, the overall figure for industrial production throughout the country was 91.57 percent. Of this, that for heavy industry products was 93.3 percent, 3.73 percentage points higher than the sales rate for light industry products.

A. The formation of a situation of high industrial and heavy industry growth rates being faster than light industry growth is the result of a swift expansion of investment demand and of promotion by exports.

First, the growth in investment demand is linked with the high-speed growth of heavy industry. With the encouragement of state policies and the support of bank credit, investment began to experience an obvious growth in the second quarter of 1991, and since the beginning of this year, the growth has been further accelerated. From January to May, the accumulated total of fixed asset investment throughout the country was 87.37 billion yuan, a growth of 38.8 percent over the same period in the previous year. Investment in capital construction grew 31.8 percent while transformation investment grew 42.2 percent and investment in commodity housing grew by 93.7 percent. Second, the sustained growth in exports has also played a promotional role in the speedy growth of the economy. From January to May this year, the delivered value of national industrial exports was 23.7 percent higher than in the same period last year, 2.6 percentage points higher than the growth in sales in industrial output over the same period. According to customs statistics, the total value of exports from January to May this year was \$27.96 billion, a growth of 14.4 percent over the figure for the same period last year, which had also seen a 19.1 percent increase. In the export product mix, the proportion of industrial finished products saw a further rise, reaching 77.8 percent. Of this, the growth in exports of mechanical and electrical products was quite swift, reaching 30 percent.

B. The relative sluggishness of growth in light industry production was related to the mild growth in the consumer product market. The sluggish trend in consumption growth by residents over a period of three years showed that a number of long-term factors will decide the future growth in consumer demand.

From January to May this year, the total volume of retail sales grew 14.4 percent over the same period last year. If we exclude seasonal fluctuations and price readjustment factors of a policy nature, the growth rates in all months were quite stable. Viewed from the consumer product market structure, consumption by social groups continued to grow rapidly at 21.7 percent, while consumption by residents grew at 14.2 percent. Looking from the angle of the urban and rural markets, the situation differed from last year because the growth in cities was lower than last year, while the growth rate in rural markets was quite high.

Seen from the angle of urban consumption, if we exclude price increase factors, the actual rate of increase in urban consumption from January to April this year was only 6.9 percent, while in the same period last year it was 17.4 percent. This shows that consumption by urban residents has changed from the recovery and swift increase of last year back to mild growth. Considering this against the background of sustained swift increases in the incomes of urban residents this year (from January to May the expenditure on wages for staff and workers grew by 18.4 percent), the flattening out of consumption by urban residents has not been because of income restraints. Rather, a phasal consumption fault has been produced by dislocation in the supply structure and, for a time, it will be difficult to form a new consumption hot-point. Further, as 1,000-yuan major commodity consumption has given way to 10,000-yuan major commodity consumption, it is necessary for urban residents to save and accumulate their income for a longer period. In this transitional period, some new changes in the urban resident household expenditure structure have occurred and long-term factors are giving rise to these changes. First, following the implementation of reform measures in housing, social security, and medical treatment, the long-term consumption of urban residents is no longer completely handled by the state, and the enterprises and the medium- and long-term proportion of residents' consumption expenditure has risen. This has caused a corresponding rise in strengthening the savings motivation and led to a split flow of purchasing power. Second, residents have gradually rectified the abnormal consumption structure and the former consumption which stressed commodity purchase has changed to consumption where there is more purchases of services. This has caused a corresponding reduction in the expenditure on commodities. Further, consumption of services has the characteristic of high elasticity and low consumption. Although this has produced some fluctuations, it has not led to a direct pummeling of the material reproduction cycle.

Seen from the angle of rural consumption, the actual growth in sales of consumer products in rural areas from January to April this year was 9.8 percent, 2.9 percentage points higher than the growth in urban consumption over the same period. The reasons for the high growth rate in the rural market include, on the one hand, the increase in the incomes of peasants. After the acceleration of the growth in investment, there was an increase in

the incomes of rural workers who had entered the cities and this stimulated some consumption demand. The growth in production by township and small town enterprises also increased peasants' income. On the other hand, the readjustment of the peasants' consumption structure led to an increase in consumption of retail commodities. Looking at chain growth in commodity consumption expenditure by peasants in recent years, we see that in 1990 it fell 2.6 percent, while in 1991 it only grew 6.6 percent, lower than the growth in consumption of consumer products in the rural areas over the same period. This is because a large part of the peasants' commodity consumption expenditure was switched from housing expenditure to commodity expenditure on food and clothing. The proportion of peasants' housing expenditure in total consumption expenditure reached a high point of 23.3 percent in 1987. At the end of the first-generation housing construction boom in the rural areas which followed the reforms, the proportion of expenditure on housing gradually dropped and in 1991 it was 19.02 percent, a drop of 4.28 percentage points. However, over the same period, the proportion of expenditure by peasants on food grew by 3 percentage points. This was an inevitable step in the readjustment of the consumption structure. If we take 1991 as an example, the consumption which was transferred from housing constituted over one-fifth of the newly-increased value of consumption products consumed by peasants in that year. Thus, although the total value change in consumption expenditure by peasants was not large, the retail commodity consumption did increase. As the rural market is still in a slump in terms of the proportion it constitutes in the overall consumer product market, the accelerated growth this year is something of a revival. Seen from the trends of future development of the rural markets, they will still be mainly subject to income restraints. The true raising of the incomes of peasants will be determined by the process of rural industrialization and this will require a certain period of time. Speaking simply in terms of the consumption of durable consumer products, which is the current direction of rural consumption (urban markets are already saturated), the peasants will not only have to increase commodity purchasing expenditure but will also have to increase investment in the construction of facilities (such as water and electricity) which are essential accompaniments to consumption. It is estimated that the rate of spread of color televisions, refrigerators, and other durable products in the rural areas will not only be much slower than in the cities but also much slower than the rate of spread of the previous three major consumer products of the previous generation. They will enter peasant households step-by-step and will not be characterized by the "wave-after-wave" style consumption which occurred in the cities giving rise to dramatic fluctuations in demand growth. This determines the long-term stable situation of the rural consumption market.

Thus, the demand impulse factor in the current high-speed economic growth has changed from the former

dual inflation of investment and consumption to directional growth, with "one rising and one falling." This shows that the demand structure which supports the new national economic situation has undergone historic change and our country has entered a stage where investment demand takes the lead and heavy industry sees priority development.

2. The effects of the current high industrial growth rate on the balancing of total volumes is different from in the past and a new characteristic has appeared in the relationship between speed and the balancing of total volumes which is completely different from those in the two previous periods of economic overheating.

A. The supply of some means of production could not meet demand but the situation of an overall tightness in the supply of goods and materials did not occur.

Seen from the supply and demand of the means of production, from January to May this year the consumption of major goods and materials related to investment grew, stockpiled goods declined, and prices increased. Some products saw a tight supply situation in some areas. However, this was not due to a shortage of resources but was produced by transport problems. The basic chemical industry products which are used in light industrial production continued to experience a situation of supply exceeding demand and prices fell. Seen from the overall situation of goods and materials, the situation of supply exceeding demand has not changed. From January to May, the prices of the means of production rose 5.5 percent and the readjustment in planned prices exceeded the growth in market prices. This is completely different from the two previous periods of economic overheating which were both marked by a growth form which was led by great increases in the market prices of the means of production. The reasons for this are: First, after the growth mode change, the high industrial growth rate concurrently spurred swift growth in production of the major means of production; second, imports of major goods and materials increased, supplementing supply; third, economic improvement and rectification left a large amount of stocks of goods and materials for the current growth and there were stocks of goods to support this year's growth.

B. The swift economic growth was accompanied by the sustained expansion of credit and banknote issuing but this did not produce any inflationary backlash.

In 1992, the scale of bank credit and banknote issues continued to expand on the basis of sustained increases during the previous two years. From January to May, newly-issued bank credit totalled 86.315 billion yuan, an increase of 1.4 times over the growth during the same period in the previous year. This is equivalent to the planned figure for the first eight or nine months of this year. Banknote issues saw a peak value of 64.644 billion yuan in January, while from January to May, the net recovery of money totalled only 6.663 billion yuan,

9.089 billion yuan less than the amount in the same period in the previous year. Seen from the whole year situation, it is already inevitable that credit and banknote issues will exceed the plans.

However given the structural changes caused by the demand factors in economic growth, there have also been corresponding changes in the effects of money on economic growth and the expansion of credit has not led to an increase in prices. From January to April this year, the overall retail price index fluctuated between 5.1 and 6.2 percent. The 6.2 percent figure was seen in April because of the effects of a readjustment of the planned prices of grain and oil. From January to April the price increase due to the market was only 1 percent.

3. The high industrial growth rate has not changed the situation of high-speed, low-efficiency operations.

Seen in terms of the effects of economic growth, although the benefits of speed are beginning to show themselves, there has been no essential change for the better in economic results and the structural contradictions of economic growth are extremely prominent.

A. The stock structure contradiction in economic growth.

At a time when the demand structure has already seen very great changes, the readjustment of the supply structure has been relatively slow and the contradiction of the stock structure readjustment is particularly prominent. This year, the amount of funds taken up by the finished products of industrial enterprises within the budget has continued to rise. By the end of May, the figure had reached 137.17 billion yuan, an increase of 24.14 billion yuan, or 21.36 percent over the figure at the beginning of the year. This was an increase of 9.19 billion yuan over the figure for the same period in the previous year, when there was a great volume of goods stockpiled. Of the finished products stockpiled in warehouses, about 70 percent are light industrial, textile, and electrical products. Seen from the angle of enterprise economic benefits, from January to May this year, following the expansion of the scale of production, although realized profits and taxes grew 14.8 percent, the rate for profits and taxes on sales was only 12.38 percent, a decline of 0.43 percentage points on the same period in the previous year, and a drop of 12.12 percentage points on the same period in 1985. At the same time, overall comprehensive product costs rose 2 percent and overall losses grew 8.5 percent. At the end of May, the range of loss-making enterprises was 34.9 percent, 2.2 percentage points up on the figure of 29.7 percent at the end of last year [figures as published]. Economic results are still in a trough.

The fact that enterprise results are poor means that it will be more difficult to achieve a financial revenue-expenditure balance in the next half-year. Added to this is the fact that, this year, a large amount of expenditure is necessary to repay credit and thus it will be extremely difficult to achieve financial balance.

B. The incremental structure contradiction in economic growth.

Using investment to spur on economic growth is an important step in getting national economic activity onto a regular track. The crux lies in the question of the investment structure and the investment benefits. At present, the irrationality of investment is prominently manifested in: 1) The scale of investment in construction has continued to expand and the problem exists of projects becoming small-scale and investment becoming dispersed. From January to May this year, the newly-commenced capital construction projects grew 41.5 percent on the same period in the previous year; 2) the investment structure is still not very rational. Investment in processing industries such as the mechanical/electrical, light, and textile industries, is still growing, while the proportion of investment in energy and metallurgical raw materials industries is continuing to decline and there is little investment in industries which have high fund thresholds; 3) seen from the regional spread of investment growth, of the coastal provinces which held the top six positions in national industrial output value (the sum of whose output values constitutes half the national total), the speed of growth of investment in four major provinces is lower than the national average. Meanwhile, the investment in hinterland areas where results are quite poor, and especially in distant border regions, is growing very rapidly, and in some provinces, investment has doubled. This has had a serious effect in that, seen from the future supply of investment, the growth of ineffective supply will exceed that of effective supply. If this is not controlled, we will see a return to the former supply structure.

II. How To View Economic Development Trends for Next Six Months

1. There is no danger of economic growth overheating.

Whether or not high-speed economic development leads to overheating is determined by changes in the market supply-demand relationships. The basic determining factors are the demand trend and the restrictions posed by supply bottlenecks.

A. Analysis of demand trends.

Can the current high industrial production growth rate, which is sustained by the unitary expansion of investment, give rise to overheating? First, it must be recognized that the swift growth in investment since the beginning of this year is being carried out on the basis of successive years of powerful cutting back, and seen in terms of the volume of investment work actually completed, this has the characteristic of revival growth. Second, how are we to view the multiplier effect of investment? Although investment demand only constitutes one-third of total demand, because investment includes the so-called "multiplier effect" whereby growth in investment will give rise to corresponding increases in residents' income, this causes people to be concerned that it will lead to inflation of consumer

demand. However, as there are some long-term factors which restrain the growth of our country's consumer product market, while the increased incomes in the rural areas might be manifest as an increase in some consumption (this part of consumption will not give rise to great changes in consumption demand), in the cities it will be manifested as savings or "holding money and waiting for bonds."

B. Analysis of the restrictions posed by supply bottlenecks.

As has been noted above, a high economic growth rate will cause overall tightness in the supply of goods and materials, mainly because of the existing changes in the form of growth and the supply guarantees. The real restraints which will form bottlenecks to future growth are first, agriculture and second, basic industries.

a) Agriculture. The stability of agriculture is a major basis for the price stability of consumer products. The economic overheating in 1988 occurred within a situation where grain, cotton, and oil production had been hovering for several years and it was thus that chaos occurred in economic order and there was high inflation. This year's high economic growth rate is based on three successive years of good harvests, especially for grain, and the grain, cotton, and oil stores are fully stocked. Seen from the agricultural situation, the summer grain harvest will reach, or surpass, last year's level, and while the autumn harvest will see a small reduction, this will not have a great effect on the supply situation for agricultural products. Agriculture will thus not be a restriction to economic growth either this year or next.

b) Basic industries. The basic industries are still bottlenecks for national economic development and are the main areas in which the new growth form, which has been spurred on by investment demand, needs to strengthen investment. However, it must also be recognized that: 1) During the Seventh Five-Year Plan, the state put great investment into basic industries; 2) as investment growth does not lead to inflation of effective total demand, it correspondingly reduces pressure on the bottleneck industries; and 3) regarding those products in short supply which can be traded, we can supplement supply through imports. Since 1989, our country's exports have maintained a high growth situation, producing a marked improvement in our country's international balance of trade and quite large increases in foreign exchange reserves. At the end of May this year, the state's foreign exchange spot balance had reached \$25 billion. In future, the world economy will move in the direction of revival, our country will soon recover its position in GATT, and the domestic supply-demand situation in our country will be relaxed. These factors will all be beneficial to our country's sustained expansion of exports and will strengthen the regulatory capacity of imports. Because of the untradability of basic facilities, the factor which forms restraints on future economic growth may well be transport capacity. Since the beginning of this year, the sprouts of rail transport tightness

have appeared in some areas. However, these have not yet spread through the whole country. If we consider other transport modes in a comprehensive way, there is still a certain potential capacity for readjustment.

2. The industrial growth in the second half of the year will not see a steady increase and may experience a fall as compared to the first half of the year.

If we look in terms of the industrial growth rate in the first and second quarters of this year, in the first quarter growth was 16.3 percent and in the second quarter there was a great reduction as compared to the estimates. In May and June the average figure was only 14.5 percent. Even though there was a slight improvement in the figure for June, the second quarter still saw a lower growth rate than the first quarter. This was the opposite to the situation from 1985 to 1990, when the second quarter growth figure was higher than the first quarter figure. There was, moreover, the influence of the low base figure from 1991, when the second quarter growth was lower than that of the first quarter. Thus, the unusual fall in the second quarter of this year shows that market demand is an important factor restricting future economic growth. Also, the government's increased demands on industrial enterprises have switched from seeking output value to seeking benefits, requiring enterprises to take the clearing of debts, reduction of stock, and reversing losses as their central tasks. If we are to continue the policy pursued in the second half of last year where there is reduced production, reduction of stocks, and reduction of credit, then the growth rate in whole-people enterprises will be the first to fall. However, the newly-added output volume of whole-people enterprises occupied the majority of the newly-added output volume of all industry. In January to May 1992, this figure reached 46.75 percent. The falling back of the growth rate in whole-people industry will inevitably bring about a falling back in the growth rate for all industry. The predicted industrial growth for the second half of the year cannot exceed that for the first half and the industrial growth for the whole year is predicted to be about 16 percent.

3. As the final demand which restricts economic growth does not have inflationary prospects, it will be quite long-term factors which determine future stable economic growth. The change in economic growth mode and the restrictions imposed by supply and demand determine that our country's future economic growth will have a quite relaxed environment where there is a quite long-term basic balance between overall supply and overall demand. There will be some leeway in making choices in terms of accelerating reform, accelerating development, and maintaining stability. This means that our country has the possibility of quite long-term stable development. However, if we are to ensure that the economy is to truly take the track of stable and effective growth we must, without losing the opportunity, put efforts into resolving the deep stock and increment structure contradictions in economic growth.

III. Deep Contradictions in Economic Activity and Policy Response Choices

The contradictions in current economic activity are prominently manifested in the quality rather than the quantity of economic growth. We must as quickly as possible change the form of economic growth from extensive to intensive growth. This is a reliable basis for accelerating development. Since the beginning of reforms, the structural and efficiency contradictions in our country's economic development have not been resolved. In periods of accelerated growth the structural contradictions have been exacerbated, and in times of cutting back, the structural problems have not been touched upon. This new period of growth for the national economy provides a relaxed external environment for economic development. However, if it is the original extensive form of growth which is speeded up, it will produce only ineffective growth, and more importantly, it will result in a good opportunity for the economy to see lost development.

At present, the focus of economic work policy responses should be placed on readjustment of the stock and incremental structures in economic growth and on guaranteeing benefits. This must have the acceleration of reform as a precondition.

1. The stock structure in economic growth and its readjustment.

The phenomena of slow readjustment of the product mix and of producing merely in order to store the products have mainly been centralized in large and medium state enterprises. The linked policies of clearing up "triangular debt," reducing production, and reducing stored stock, which have been implemented in these enterprises, have achieved certain results. These effective methods should continue to be implemented. For enterprises which have seen long-term stockpiling of their products, incur serious losses, and have no hope of reversing the losses, we should firmly implement the policies of closing down, stopping production, merging, or switching production.

At the same time, if we are to achieve some breakthrough in the stock readjustment of the overall industrial structure, we must carry out coordinated reforms centered on the following three aspects: 1) Unifying the national market; 2) transforming the enterprise operational mechanism; and 3) perfecting a social security system.

Apart from this, the development of rural markets and export markets will have major significance, as these are ideal absorbing areas for stock.

2. On the incremental structure in economic growth and its readjustment.

If investment continues to circulate in downstream industries, and a large volume of bank credit continues to be loaded into ineffective projects, then when our domestic market is greatly opened up following our country regaining its place in GATT, these general

processing industries will face the great danger of being squeezed out. We will not then be able to talk about benefits and there will be no way to repay the principal and interest on bank credit which is mainly derived from people's savings. This will exacerbate the bank credit crisis. Also, the relative stagnancy of basic industry construction will directly affect both our country's economic take-off and the raising of the industrial structure.

Why is it that in our country, unlike Japan and the "four small dragons," since development was accelerated, the growth in investment has been directed at final consumer products? The crux is that since the reforms by which the main investment subject was changed from the state to the local governments and enterprises, the local government functions have not been changed correspondingly and phenomena such as administrative interference in enterprises and interference in the economy are extremely widespread. In addition, the problem of short-term activities by enterprises exists. If we want to direct these funds to technology-intensive basic industries, we must change the situation of investment dispersal and rebuild long-term fund-raising avenues for basic industries.

3. We must fully utilize this golden period, when overall volumes in the national economy are stable, to gradually expand those reforms which are market-oriented and use the acceleration of reform to promote the speeding of development.

The change in the form of economic growth from extensive to intensive will inevitably bring to the whole of industry huge readjustment and huge reorganization. However, the implementation of all this must have structural reform as a base. The core tasks in structural reform are: 1) Speeding the changeover in functions of the central and local governments and greatly reducing direct intervention in the economy; 2) truly standardizing the market and restraining the activities of enterprises, so that they become the main subjects taking on the risks of investment and operations; 3) putting in order as quickly as possible the new financing channels so that the investment risk is no longer borne solely by the state banks, but shared by the state, enterprises, and residents; and 4) further accelerating price reform, greatly reducing subsidies for financial losses and the burden of price subsidies, guaranteeing a balance between financial revenue and expenditure, and blocking the avenues by which the financial administration overdraws or borrows from banks. With these preconditions, the state will be able to safely and effectively use national debt and other means to collect some long-term funds to be used as investment in national basic facilities and building major basic industrial projects.

State Continues To Stress Trademark System

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1409 GMT 1 Feb 93

[Text] Beijing, February 1 (XINHUA)—China hopes to conform to international practices on trademarks this year, according to an official with the State Administration for Industry and Commerce.

More than 40 trademark agencies have been set up in the country with qualified officials.

There has been a big increase in trademark registrations. The number accepted now exceeds 360,000 and a further 110,000 applications are being processed.

The official said that China has adopted the international practice in commodity classification, trademark pattern and the terms of the Madrid Agreement on the international registration of trademarks.

Trademarks have a strong influence on market competition in the socialist market economy, the official said.

However, he said, difficulties still exist in conforming completely to international practices, because of backward technology, unsound administration and a lack of qualified professionals.

To solve the problems, the administration is demanding that all the trademark bureaus in the country step up a computerized consultation network to raise their efficiency and quality of work.

The administration plans to have trademark agencies in all provinces and autonomous regions. In remote and ethnic minority areas, local law offices may handle trademark affairs.

Implementing Operational Mechanism Regulations

HK0101001093 Beijing JINGJI GUANLI in Chinese
No 9, 5 Sep 92 pp 9-11

[Article by Zhang Yanning (1728 1750 1337): "Thoroughly Implement the 'Regulations on Transforming the Operational Mechanism of Industrial Enterprises Owned by the Whole People' and Push Enterprise Reform to a New Stage"]

[Text] The thorough and overall implementation of the "Regulations on Transforming the Operational Mechanism of Industrial Enterprises Owned by the Whole People" (hereafter referred to as "regulations") which were recently promulgated by the State Council is a major issue in current economic life, a key aspect of enterprise reform work, and a major measure in realizing the strategic tasks put forward by the central authorities.

I. Raising Understanding of the Importance of Implementing the "Regulations" and Concentrating Energy on Grasping the Implementation Work

Under the direction of the leading comrades of the State Council and with the close cooperation of the State Commission for Restructuring the Economy, the Economic and Trade Office of the State Council, the Bureau of Legislative Affairs under the State Council, and other relevant departments, deep investigative research was carried out, opinions were repeatedly sought, and the draft of the "regulations" was revised on several occasions. After a year and a half the "regulations" were passed by the State Council's Standing Committee, and they have now been formally promulgated by the State Council.

The "regulations," which are based on the "Enterprise Law," draw on the basic experiences of our country's enterprise reform since the beginnings of reform and opening up; manifest the spirit of enlivening large and medium-sized state-owned enterprises that was put forward by the central work conference; and in particular implement the spirit of the major speeches given recently by Comrade Deng Xiaoping. In accordance with the principles of dividing enterprise and government functions and managing the macroeconomy well while freeing the microeconomy, the major contents of the "Enterprise Law" were thus given concrete form. This was quite a major breakthrough with regard to the current policies and laws, and it signaled that enterprise reform had entered a new stage. The promulgation and implementation of the "regulations" provides an important legal basis for transforming the enterprise operational mechanism. The serious and complete implementation of the "regulations" has major significance with regard to further implementing the "Enterprise Law"; mobilizing the enthusiasm and creativity of industrial enterprises owned by the whole people and the whole body of staff and workers; pushing the enterprises toward the market; consolidating and developing the previous results realized in enterprise reform; achieving the transformation of the old economic structure into the new; and with regard to promoting the betterment and raising of the national economy to a new stage.

In the new situation of reform and opening up, the timing and conditions are right for implementing the "regulations." However, we must soberly recognize the arduous nature and complexity of transforming the enterprise operational mechanism. Creating the "regulations" was not easy, and implementing them will be even more arduous. This is because the transformation of the enterprise operational mechanism is closely linked with reform of the overall economic structure. This requires changes in government functions, reform of organs, establishing and perfecting a market mechanism and a social security system, and strengthening relevant legal system construction. A huge amount of work will be involved, many problems will need to be brought into harmony and resolved, and we will need to make very great efforts. First we need to raise the understanding of the importance of

implementing the "regulations." We must fully understand that: The "regulations" are important legal stipulations and a code of conduct for enlivening and running state-owned enterprises; grasping reform requires grasping the implementation of the "regulations"; in enlivening state-owned enterprises, it is necessary to implement the "regulations"; and if the operational mechanism is transformed swiftly, the state, enterprises, and staff and workers will obtain benefits swiftly. We must strengthen the sense of urgency, eliminate interference, centralize efforts, grasp the beneficial opportunity, and implement the regulations as quickly as possible.

II. Grasping the Central Issue in Transforming the Enterprise Operational Mechanism: Truly Implementing Operational Autonomy Rights for Enterprises

The crux in transforming the enterprise mechanism lies in implementing operational autonomy for enterprises. The "regulations" are aimed at defects which result in enterprises having little strength or vigor and achieving poor economic results; when drafting these "regulations," enterprises' capacity to implement them practically was also considered. Detail 14 stipulates operational rights for enterprises and provides specific explanations and extensions of relevant stipulations in the "Enterprise Law." In particular, it sets down rights of operational autonomy over enterprise production and operational decisionmaking, investment decisionmaking, product pricing, import and export operations, personnel and labor matters, wage and bonus distribution and internal organizational setup. The "regulations" break through existing relevant policies, laws, and regulations under the principle of firmly upholding the "Enterprise Law." This will play an important role in implementing enterprise operational autonomy rights, further motivating the enthusiasm of enterprises and the whole body of staff and workers, readjusting the product mix and the enterprise organizational structure, strengthening the self-development capacity of enterprises, and in improving enterprise economic results. At the same time that they give enterprises operational autonomy rights, the "regulations" strengthen enterprises' responsibility for their own profits and losses. They also set down corresponding policies and measures for establishing and perfecting self-restraint mechanisms for enterprises and for correctly handling the interest relationships among the state, the enterprises, and the staff and workers. The enterprises have to learn how to correctly and fully use these rights which the state has given them and how to use the law to protect their own rights and interests. At the same time, they must fully understand their responsibilities regarding their own profits and losses and their civil responsibilities, and decide their operations in accordance with the law.

Correctly choosing and deciding on a form of assets operation is a major issue in correctly handling the relationship between the state and enterprises and in implementing enterprises' rights of autonomy. It is necessary to continue to uphold and perfect the enterprise contracted operation responsibility system. At present,

over 90 percent of state-owned industrial enterprises are implementing the contracted operation responsibility system. They must first uphold and then perfect the contract system. It is extremely important to grasp these two points. Perfecting the system must be combined with transforming the enterprise operational mechanism, so as to strengthen enterprises' restraint mechanism and their development vigor. The experimental points of the shareholding system must, in accordance with the demands of standardization, strengthen leadership and be actively and stably implemented in a planned, gradual manner. We should gradually implement a trial separation of taxation and profits and further handle the distribution relationship between the enterprises and the state, in order to establish and perfect a mechanism by which enterprises take responsibility for their own profits and losses.

III. In Transforming Government Functions We Must Closely Keep Up With Changes, at the Same Time It Is Necessary To Grasp Well the Various Associated Reforms

A major reason why the rights of autonomy which the "Enterprise Law" gives to enterprises have not been well implemented is that the transformation of government functions has been lagging behind. Thus, all levels of government departments must, in accordance with the principle of "managing the macroeconomy well and freeing the microeconomy," which is stipulated in the "regulations," standardize their own actions and accelerate the transformation of government functions. It is necessary to change direct management to indirect management and microeconomic management to macroeconomic management and comprehensively utilize economic, legal and necessary administrative measures to carry out management, and do well in "planning, coordination, supervision and service" work. The 14 rights of autonomy stipulated in the "regulations" must be given to enterprises in their entirety, and no department or unit should hold these back from them. The "regulations" which are clear must be implemented as stipulated and those which are not clear should be made more specific. The rights of operational autonomy for enterprises as stipulated in the "regulations" need to be examined, approved and have arrangements handled by the relevant departments, and these departments must, in accordance with the principles of "simplifying procedures, reducing links, raising efficiency and providing convenience for the enterprises," formulate work procedures, systems and responsibilities. The various levels of government, after giving to enterprises to manage all those things which the government should not manage, should pay particular attention to managing well those things the government should be managing, to strengthening macroeconomic regulation and control and industrial management and to establishing a macroeconomic regulation and control system which is beneficial to both increasing enterprise vigor and the orderly operation of the economy. They must establish and perfect a social security system and foster and perfect a market system, bring into play the role of regulation through the market mechanism and create a

fine social environment for having enterprises move toward the market. They must also develop and perfect public facilities and public welfare undertakings which are connected with the enterprises.

At the same time as the functions of government are transformed, it is also necessary to speed up the pace of associated reforms, including carrying out reforms in the areas of planning, investment, finance, taxation, banking, pricing, goods and materials, commerce, foreign trade, personnel and wages. According to statistics, in 1990 and 1991, the percentage which the profits and taxes handed up constituted in total realized profits and taxes gradually rose to 85 and 93 percent. If the burdens which the enterprises bear are too heavy and the retained profits are too small, it will be very difficult to have enterprises deciding on their own operations and taking responsibility for their own profits and losses. Thus, we must adopt measures in the areas of finance, taxation and bank interest so as to strengthen the self-development capacity of enterprises.

IV. Strengthening Leadership, Formulating Implementation Measures and Ensuring That the Various Policy Measures Included in the "Regulations" Are Fully Put Into Place

All regions and all departments should truly strengthen leadership over this work and major leading comrades should personally grasp the work, make clear which are the organs responsible for carrying out the work, establish necessary work systems and responsibility systems, and achieve a situation where organizational arrangements are implemented, work is carried out and responsibilities are fulfilled. In the implementation of the "regulations," we must tightly fix our gaze on the goal of transforming the enterprise operational mechanism and not let our gaze wander. This goal is intended to ensure that enterprises can accord with the demands of the market and can become commodity producing and operating units which decide on their own operations, take responsibility for their own profits and losses, develop themselves and restrain themselves, and also become independent enterprise corporate entities which enjoy civil rights and take on civil obligations. During the period of the Eighth Five-Year Plan, we must try to ensure that two out of every three enterprises basically realize a situation of taking their own operational decisions and taking responsibility for their own profits and losses. By the end of the Eighth Five-Year Plan, the transformation of government functions should have been basically completed, and a quite complete social security system and market system should have been established.

Every region and department should, centering around the realization of the above-noted goals, in accordance with the demands of the "regulations," and in accordance with the principles of "unified deployment, implementation by stages, specialized leadership and stressing real results," put stress on formulating the specific implementation measures for their region or their department. The implementation measures must clearly manifest the specific policy measures and implementation steps of the "regulations," and further define the contents of the "regulations." First, the implementation methods formulated by the region or department must accord with

the policies, methods and requirements stipulated in the "regulations," and in accordance with the spirit of the "regulations" and in the light of reality, the region or department may engage in further pioneering and breakthroughs. Second, the implementation of enterprise rights of autonomy and the transformation of government functions should be important contents in the implementation measures. Third, there must be implementation in stages and specialized leadership. That is, there should be differentiated treatment and specialized leadership for the coastal and hinterland areas, large, medium-sized and small enterprises, profit-making enterprises and loss-making enterprises and profit-oriented enterprises and social and public welfare enterprises. In all areas which have the conditions, the process of transforming the operational mechanism should be accelerated a little. Those enterprises which have already carried out experiments should take the lead in completely implementing the "regulations." The large- and medium-sized state enterprises are the focal points in transforming the enterprise operational mechanism, and by the first half of next year we should ensure that the various major rights of autonomy which are provided for in the "regulations" are implemented in these large and medium-sized enterprises. In this work, we must stress the differentiation of different situations, suit measures to the local conditions, respect enterprises' wishes and overcome formalism.

We should also carry out checks on the implementation measures applied in accordance with the "regulations" and with the situation of the region or the department, as well as on the previous policies and laws, and take necessary steps. All those which clash with the "regulations" and implementation measures should be revised or annulled. This work should be completed by the end of this year.

A crucial element in whether or not the "regulations" can truly play a role will be the strengthening of supervision and the inspection of the way in which the "regulations" are being implemented, so that there is law on which to rely, the law is implemented firmly and violators of the law are prosecuted. All levels of government departments should handle things in accordance with the law, strengthen self-supervision, actively accept the appeals and reports from the enterprises, and consciously engage in correction of actions which violate the "regulations." At the same time, supervision by the masses and by the media should be strengthened, so as to guarantee the implementation of the "regulations."

Economic committees (planned economy committees and production committees) at all levels should, under the leadership of the provincial (city, district) government, do well in the work of organizing the implementation of the "regulations" in their own areas. First, they should organize the formulation of thoroughgoing measures for implementing the "regulations" in their areas and then, in cooperation with other relevant departments such as the structural reform committee (office) and the legal affairs bureau (office), they should arrange

implementation. Second, they should harmonize the relationships between department and department and departments and enterprises and do as much as possible to reduce the contradictions in implementation and avoid clashes between the policies formulated by the various departments and the "regulations." In respect of new problems which appear, they should put forward ideas on policies, and together with relevant departments, engage in research and coordinate in resolving the problems. Third, they should engage in supervision and inspection of the implementation of the "regulations" and the implementation measures as well as examine actions which violate the "regulations" and problems which cannot be resolved. They must be brave in meeting such matters head on and adopting necessary measures, so as to guarantee the implementation of the "regulations." Fourth, they should sum up experiences in a timely way, and organize exchanges and propagation of experience, so as to promote work on the overall level. Fifth, they should report to the local government and the economic and trade office of the State Council on the situation in respect of the implementation of the "regulations." Also, any major developments and problems should be reported in a timely way.

V. Seriously Engaging in Study, Propagating the Experiences of Shoudu Iron and Steel Works and Other Enterprises, and Accelerating the Pace at Which the "Regulations" Are Implemented

Since the beginning of reform and opening up, throughout the whole country there has appeared a group of advanced enterprises which have keenly engaged in reform, developed and pushed forward and done well in transforming the enterprise operational mechanism. These include enterprises such as Shoudu Iron and Steel Corporation, the No. 2 Spinning Machine Factory, Handan Iron and Steel Works, Guangzhou Monosodium Glutamate Factory, Jilin Chemical Industry Company, Yanshan Chemical Industry Company [yan hua 3601 0553], and Shi Ge Jie [4258 8198 4634]. Recently, the Economic and Trade Office of the State Council has put forward the requirement that the entire national industrial front should study and propagate the good experiences of the Shoudu Iron and Steel Corporation, the Jilin Chemical Industry Company, and the Shanghai No. 2 Spinning Machine Shareholding Limited Company, so as to push the national economy to a new stage. Developing these activities not only is a requirement for the broad masses of enterprises in raising overall quality and engaging in competition which is oriented toward both the domestic and the international markets, but also has major guiding and promotional significance in accelerating the pace of reform and development, speeding up the transformation of the enterprise operational mechanism and promoting the raising of the economy to a new level as quickly as possible. We should organize the industrial front throughout the whole country to seriously study and propagate the good experiences of Shoudu Iron and Steel Corporation and other enterprises; to study how they uphold the basic line of the party and stand in the front line of reform and opening

up; to study how they have advanced international standards as their targets, actively participate in market competition, and combine high speed with high efficiency; to study how they correctly handle the relationship between the state and enterprises, decide on their own operations, take responsibility for their own profits and losses, establish rational distribution mechanisms and restraint mechanisms and continually maintain a capacity to increase the value of state assets; study how they strongly promote the technological progress of their enterprise and maintain the competitive capacity of their leading products; study how they firmly run their enterprises and strengthen management; and in particular study how their leading groups have liberated their thinking, forged ahead united, sought truth from facts, despised the workstyle of empty talk, relied on the broad masses of staff and workers, upheld the concurrent grasping of both material and spiritual construction, and combined the transformation of the enterprise operational mechanism, the promotion of technological advance and the strengthening of enterprise management, so as to raise the overall quality of the enterprise.

If spreading and implementation of the "regulations" is organically combined with the study and propagation of the experiences of these three enterprises, it will form a very powerful force, and this is where our hopes lie for accelerating the pace of transformation of the enterprise operational mechanism. The successes achieved by these three enterprises are the result of their correctly using the policies the state provides and actively transforming their operational mechanisms. It is also a result of the government implementing a series of enlivening policies for expanding the autonomy of these enterprises. Thus, not only should the broad masses of enterprises seriously study the experiences of these enterprises, but government departments should also seriously study them, further liberate their thinking, transform their functions and make efforts so that all state enterprises travel this successful road of opening up, reform and development.

Commodity Price Bureau Urged To Shift Focus

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[Article by Wang Jiazhen (3769 1367 3791): "Transform Functions and Speed Up Price Reform"]

[Text] 1. Understand the Situation and Further Liberate Thinking

As the spirit of the important speeches delivered by Comrade Deng Xiaoping while he inspected the south is being thoroughly implemented, the reform and open policy and economic development situation in China is changing profoundly. On the price front, the situation can be summarized in the following points: 1) As the socialist market system is gradually being put together, the scope of market regulation will continue to broaden, the degree of market regulation will continue to increase,

and the law of value will operate more directly and more prominently. In this new situation, a new mission for commodity price bureaus is to figure out how to make use of the regulatory role of the law of value properly while avoiding its haphazard and destructive nature. 2) The restructuring of the economic system centered on the transformation of the enterprise operating mechanism is proceeding at an accelerated pace. Concomitantly, efforts to reform the price formation mechanism and price management system also must quicken. 3) China will be open to the outside world more and more with its accession to the General Agreement on Tariffs and Trade [GATT] next year. In other words, China's price system and the overall price level will be more closely linked to the world market in the not too distant future. At that time the scope of price management, the substance of price service, the methods and formats of price coordination will also undergo some changes. 4) Organizational reform has been put on the agenda. This is what the development of a socialist market economy needs and is indispensable to the transformation of government functions. Candidates for transformation will include the functions, setup, personnel, standing, and roles of all agencies, including the commodity price bureaus. 5) There is a strong momentum for speeding up economic reform and economic development at all levels of government. Commodity price bureaus must enhance their sense of urgency and initiative about price reform and make an earnest effort to stay in line with government demands in their work. 6) As economic development accelerates, conflicts between the old and new systems may well lead to some imbalances in the overall economy, causing a certain amount of inflation. We must remain clear-headed.

Such is the broad picture facing price work in the long run. Judging from the price situation on the market in the next few months, we absolutely must not relax our price control work. Several factors favor continual price stability. 1) Commodities are in ample supply, which should help hold down prices significantly. 2) Despite the considerable increase in the scale of fixed assets investment since the beginning of this year, its impact on the consumer goods market will not be felt for some time. 3) The introduction of housing reform and health care reform and the issue of a variety of bonds have helped channel purchasing power to different areas. 4) All sectors of society have become more tolerant of price changes, so price reform most likely would not undermine public confidence to any substantial degree. Be that as it may, we should also see that many factors are at work pushing up commodity prices. First, the expansion of the scale of lending and growth in the money supply may potentially let loose another round of inflation. Second, the pressures for cost-driven price increases are building up steadily. Costs have risen rapidly in the last few years, which may well be passed onto consumers by processing enterprises for market reasons. The prices of energy, transportation, and raw materials are now rising sharply, further boosting the costs of processing enterprises, which will have a major impact on market prices.

Third, the earlier round of price increases in the coal, transportation, and gas industries will impact market prices both directly and indirectly. Fourth, it is too early to tell how the autumn harvest will shape up. Many areas are suffering from a severe drought. This will have the biggest impact on market prices. Accordingly we must not overlook price control or slacken our efforts in that area.

The current situation in price work is characterized by two outstanding issues. First, amid organizational reform, what will happen to commodity price bureaus? Second, what will commodity price bureaus do when most prices are decontrolled? These two issues are what concern people most right now. They are also real issues confronting the commodity price bureaus now. What is the state of the corps of price workers? As far as Hebei is concerned, the situation is quite good overall. But there is still a host of problems. For the province as a whole, there is great unevenness, both vertically and horizontally, whether we are talking about the state of the corps of workers or the work situation. Vertically, the situation in counties and districts is not as good as that in prefectures and municipalities. Horizontally, there are three situations. In one situation, the workers, having liberated their thought, forge ahead vigorously, take the initiative to break new ground, and are markedly effective in their work. The standing of the bureau is ever on the rise. In another situation, people are slow to change their thinking and tend to procrastinate and drift in their work. Both departmental status and functions have shown a weakening trend. In the third situation, the workers are uncertain in their thinking and passive in their work. Their morale is low. In these places, the commodity price bureau has become expendable. What has caused such a situation? One is that people with outdated thinking do not know what to make of or how to adjust to the changes around them. Second, they do not understand reform thoroughly enough. Organizational reform, personnel reduction, and the downgrading of direct price control are essential to developing the socialist productive forces. Instead of trying to understand reform in the overall context, some comrades develop a sense of loss because departmental interests have been eroded and take a passive wait-and-see attitude. Third, the quality of cadres is not up to the needs of the new situation. Some leading comrades are parochial in their thinking and half-hearted in their work. A large number of cadres do not know where to start in their work under the new situation. Even when they know the right thing to do, they don't have the capability to do it. Some cadres are not devoted enough to their work and have a limited sense of responsibility, lacking any drive to forge ahead. Solving these problems is vital to doing a good job on the price front, perfecting the organizational setup of commodity price bureaus, and adjusting their standing and functions properly. Solving

these problems depends on achieving a consensus among all cadres in price work on the following:

1) Organizational reform, being the trend of the times, is inevitable. But regardless of how government offices are set up, there must be somebody to do price work. Government organs must be set up in a way that would meet the needs of the socialist market economy. Proceeding from this point, we see that price work cannot be downgraded. As far as commodity price bureaus are concerned, the main thing about organizational reform is the transformation of functions and that is where we should concentrate our energies on.

2) After a majority of prices are decontrolled, price work will become a heavier, not a lighter, responsibility. This is because monitoring the overall price level is still something that must be done. A number of prices will still remain under direct control. The management of fee collection is an arduous job. The regulation of real estate prices too involves a lot of work. With regulation comes supervision. Moreover, price information and consulting services cover a wide area. A county bureau needs one or two dozen staffers, a prefectural or municipal bureau, between 50 and 60 staffers. With all this work to be done and done well, will there be an idle person?

3) Whether or not we can keep the initiative in reform depends more than anything else on our ability to adapt to the situation, be innovative, and forge ahead. Practice in many an area proves that provided we work hard and do our job well, both the standing of the commodity price bureau and its role will emerge stronger. Authority flows from accomplishments; standing flows from achievements. If you just wait and see passively, do not transform your functions diligently, and put on a mediocre performance, then the government will not be able to hear the voice of the price bureau, enterprises will obtain no services from it, and the masses will not see the price bureau playing any role. In effect you will be sitting back and waiting to be incorporated into some other organ.

4) The commodity price bureau holds the key to success in price reform. With price work currently at a turning point, the job of price bureau director assumes extra importance. Price bureau directors at all levels should be intensely devoted to their work and have a strong sense of responsibility. They should feel responsible for their undertakings and accountable to their subordinates as well. They should step up leadership, liberate their thinking, update their ideas, and regularly apply new concepts to unify understanding. In the transitional period, price bureau directors at all levels should strengthen their organs and intensify their institutional cohesiveness. Externally they represent their bureaus and must straighten out relations with all parties. They must not give the government the impression that they are not operating ineffectually or make other agencies feel that they are out of step or convince the enterprises of their uselessness. They must take pains to study the current thinking and tackle important things.

2. Continue Price Reform, Speed Up the Transformation of Functions

After 14 years of price reform, the price system and price management system have undergone profound changes. The price system has made big strides toward rationality and a new price management system is largely in place. Concomitant with continuing price reform, the substance of price work also has changed, now basically consisting of five functions: management, coordination, services, supervision, and guidance. In the new situation, some functions must be upgraded, some downgraded. Specifically, direct management will be downgraded while indirect management will be upgraded. Price regulation will be downgraded, but the regulation of fee collection will be upgraded. The scope of price management will be narrowed while the intensity of price management will be enhanced. Revolving around these functional changes, I believe we must clarify three guiding ideas. First, the basic function cannot be abandoned. The purpose of transforming functions is to meet the demands of developing a socialist market economy, with the emphasis on strengthening the service function. We must stress these functions, but not to the extent of weakening or abandoning the basic function. The basic function of the commodity price bureau is to regulate prices. It must change its methods, but it must not weaken, let alone abandon, its basic function. The price bureau will not be a price bureau if it abandons its regulatory function. Second, it must implement government resolutions in earnest and do a good job as adviser. As the government goes about regulating the economy, it must be made to feel that the commodity price bureau works hard, shows initiative in its work, and has a sense of responsibility. Third, generate revenue with the strengthening of the service function as our starting point. The purpose of generating revenue is not to pursue personal interests, but to improve our services. Today all governments are strapped for funds, so it is up to us to come up with revenue if we are to improve services. Where justified, charges and fees must be collected forcefully, such as information service fee, real estate appraisal fee, and fees to cover the costs of processing certificate photographs.

In my opinion, commodity price bureaus should concentrate on doing a good job in these several areas for some time to come:

1) Further intensify price reform. Fourteen years of practice in price reform fully proves that price reform has been instrumental in expediting the development of the commodity economy and spurring the expansion of productive forces. The road of price reform is entirely right. Press ahead with price reform unwaveringly and steadfastly. Handle the relations between deregulation and control and further intensify price reform. Everything that can be regulated by the market should be turned over to the enterprise without exception. Implement the spirit of Central Committee document No 5 (1992). Make full use of the price lever to spur the development of the tertiary industry. Take a careful look

at the schedule of fees of most services of a commercial nature. Decontrol as many as circumstances justify. Even in the case of commodities where a continuation of price-setting by the state is required, the law of value also should be fully respected. Provided the market proves receptive and the enterprise has a demand, decontrol should be the order of the day depending on the jurisdictional limits of price management.

2) Step up the macroeconomic regulation and control of market prices. For one thing, intensify the supervision and monitoring of the overall retail price level. In a majority of cases, after the price of a commodity is decontrolled, price regulation and control become wider in scope and also more difficult. We need to intensify the monitoring and supervision of the market, get a grip on price movements, examine our policy, make price regulation and control more scientific, and prevent sharp fluctuations in market prices. Second, commodities whose prices are set by the state must be managed and managed well. Continuing price reform requires us to decontrol the prices of a majority of commodities as well as the fees and charges of most services of a commercial nature. But the prices of commodities or the fees of services which are of a monopolistic, public, or welfare nature, or which involve protected resources, cannot be decontrolled. On the contrary, they must be managed and managed well. But even in the case of regulated commodities, we must study their production costs and things like market supply and demand properly in accordance with the requirements of the law of value and the law of supply and demand. Draw up plans meticulously and make adjustments properly. Third, apply indirect management to the prices of decontrolled commodities. To prevent market prices from fluctuating excessively, we must influence deregulated commodity prices and intervene as appropriate and prevent excessive swings in prices with such measures as maximum prices, the price differential rate, and intermediate prices. We need to keep market prices down with the price regulatory fund. By instituting negotiated prices for a trade or industry, we can prevent both panic purchasing at inflated prices and the refusal to take delivery of merchandise in hopes of driving down prices, thereby promoting the healthy development of the national economy.

3) Tighten fee collection management. The collection of a host of fees and charges, particularly those collected in the course of the administrative process, is highly monopolistic and coercive, so it must come under government regulation. In Hebei the collection of administrative fees and charges now yields as much as 3.6 billion yuan each year, equivalent to 40 percent of what the provincial government collects in revenue annually. As government functions are transformed and all sorts of projects take shape, the trend is for the scope and scale of fee collection to gradually expand. Fee collection will become an increasingly arduous task and heavy responsibility. While the drive to clean up fee collection last year had some success, some problems have resurfaced and fee collection continues to draw strong complaints

from both enterprises and peasants. Recently, the Hebei provincial government completed an annual review of the fee collection permits of organs directly under the provincial authorities. According to the review, 80 percent of the units collected fees arbitrarily and illegally in violation of fee collection management regulations. This shows illegal fee collection is still a serious problem. We can see that tightening fee collection regulation is an arduous job for the long haul. We must tackle it on a long-term basis, proceeding from the need to ease the unjustifiable burden on enterprises and the masses.

4) With the creation of a favorable investment climate as our starting point, we should get a regulatory hold on real estate prices without delay. In the wake of economic development and housing reform, real estate transactions are thriving. But skyrocketing prices and disorder in the trading process are becoming more and more serious problems, to the detriment of national economic development. For one thing, they militate against the furthering of housing commercialization. For another, returns on state land are being lost on a large scale. This situation neither helps improve the investment climate nor complies with the demands of macroeconomic regulation and control. All localities have been actively participating in the regulation of real estate prices since the beginning of the year in response to the demands of the State Administration of Commodity Prices. Judging from the progress that has been made in Hebei, this task went off to a good start. The provincial government has decided to put the provincial commodity price bureau in charge of drawing up rules for regulating real estate prices in conjunction with the provincial construction commission, the Construction Bank, and other departments. In addition, the provincial price bureau and the land bureau are to work on drafting land price management regulations while the price bureau is also put in charge of revising methods for regulating real estate transactions. Since the regulation of real estate prices is closely policy-related and involves a broad area, it is enormously difficult. With everybody from top to bottom working hard together, we need to concentrate our energies on incorporating real estate prices into the regular reach of price regulation in accordance with the spirit of reform and the principle of avoiding state land income losses.

5) Intensify price information services. As the commodity economy develops, all sectors of society will demand more and more information services from commodity price bureaus. Generally speaking, there are four kinds of information services. First is the collection of a broad range of price information, its accurate analysis and processing, and its timely dissemination to serve enterprise production and operations and government regulation of the economy. Second, consulting services, that is, assessing such key price matters as the supply and demand of commodities and trends in price movements to provide advice to enterprises to help them with their production decision-making. Third, case-related services, that is, conduct asset appraisal and evaluation for

a range of economic cases, economic disputes, cases involving the distribution of properties or the buying and selling of real estate. Fourth, cost services. Provide enterprises and peasants with socially average costs and advanced costs to help them adjust their production structure and product mix. Price information services are an important part of the commodity price bureaus' new lineup of functions. We must take full advantage of the price information services network already in existence in the price system and make the transmission of price information even more timely and accurate so as to elevate price information services to a new standard.

6) Step up guidance over enterprise price-setting. After enterprises are delegated the price-setting authority, in most cases they end up setting the wrong prices, which directly hurts their bottom line, for a variety of reasons—their failure to respond to information promptly, the partial nature of what they determine to be the price trend, and the diversity of the quality of price personnel. Commodity price bureaus should earnestly help enterprises put their pricing authority to good use. In the case of some trades where prices have been decontrolled, the price bureau should take an active part in guiding the industry to agree on prices through consultation and prevent monopolistic prices. In this area, we must start out by promoting the maturation of the market and revitalizing commercial circulation and lay the groundwork for entry into all markets in accordance with the demands of the State Administration of Commodity Prices. By publicizing our policies, supplying information, offering advice, organizing the negotiation of prices, serving as an arbitrator or mediator, the price bureaus should discharge all their functions and live up to their role of guiding enterprise operations and helping them set reasonable prices and compete fairly.

7) Do a good job in price coordination. Judging from the practice of work in recent years, not only commodity prices set by the state, but also commodity prices already decontrolled need to be harmonized. Price differences are particularly striking between the production and marketing sectors and between domestic sales and export, so we must work to bring them in line with one another in order to spur normal production and operations. We must continue to take the initiative to harmonize all sorts of price relations and remove price discrepancies seriously and responsibly in the interest of balanced national economic development.

8) Conduct price supervision in accordance with the law. Price supervision is important economic supervision. In the new era of openness and economic vitalization, price supervision cannot be relaxed. The focus of price supervision should be on protecting reform and the open policy, the development of productive forces, and the revitalization of the economy. In price inspection, concentrate on people who jack up monopolistic prices irresponsibly, collect fees and charges forcibly, and drive up prices, thus damaging the economic order. Those who enrich themselves at the expense of the masses and raise prices arbitrarily against the interests of the consumers must be punished in accordance with the law. Protect the price rights and interests of enterprises and the masses.

Theoretical Discussion on Socialist Market Economy

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[Article by Zheng Shuo (6774 4311): "Summary of Theoretical Discussion on Socialist Market Economy"]

[Text] A discussion has been going on in the press recently on the concept of a socialist market economy. The discussion has attracted the utmost attention from the economic theoretical community and other interested groups. Since the discussion has barely started, many issues are still evolving. Below is a summary of the viewpoints that have been put forward.

How the Issue Came About

During his inspection tour of the south, Comrade Deng Xiaoping delivered a speech in which he made the point that the market economy is not the same as capitalism, that the planned economy does not amount to socialism. These words only served to reinforce the notion that the "market mechanism should be incorporated into economic life." A number of well-known economic theoreticians then began to publish articles in the press arguing that we should no longer fear criticism that if you emphasize the role of the market, you are taking the capitalist road. Instead, they said, we should shift to the socialist market economy vigorously and firmly both in theory and in practice.

Experts who advocate a socialist market economy claim that the idea of such an economy was not born overnight. As early as 26 December 1979 Deng Xiaoping told Jibuni [0679 1580 1441], deputy chief editor of Encyclopedia Britannica in the United States who was then visiting China, "It is definitely inaccurate to say that the market economy can only be the market economy of a capitalist society, of capitalism. Why can't socialists put together a market economy? The market economy had its roots back in the feudal era. Socialism too can put together a market economy." He also claimed that the socialist market economy basically uses the same methods of capitalist society, but there are also differences. Subsequently Comrade Deng Xiaoping pronounced on the relations between planning and the market on many an occasion, emphasizing that we must pay attention to and use the market economy, culminating in the speeches of his recent tour of the south, which fundamentally rejected the traditional idea that planning and the market are what essentially distinguishes socialism from capitalism. This string of ideas from Comrade Deng Xiaoping has not only enriched and advanced the theory of building socialism with Chinese characteristics, but also exerted a powerful spiritual force for further liberating the ideology of vast numbers of cadres and the masses.

Some economists trace the course of the debate on planning and the market since reform and the open

policy went under way to illustrate how the idea of a socialist market economy matured. In their opinion, the idea was first broached between July and September 1978 when the State Council called a meeting to study ways of speeding up China's four modernizations, including the restructuring of the economic system. The meeting arrived at this conclusion: "Combine the planned economy with market economy." In subsequent discussions in the theoretical community, however, most people thought that this expression was less accurate than "a commodity economy combining planned regulation with market regulation." In September 1980, the Restructuring of the Economic System Office of the State Council said in its "Preliminary Opinion on the Restructuring of the Economic System," "China's socialist economy in the present stage is a commodity economy where the public ownership of the means of production occupies the dominant position and various economic components coexist. The principles and orientation of the restructuring of the economic system should be as follows: While keeping a dominant position for the public ownership of means of production, conscientiously apply economic principles based on the demands of developing a commodity economy and accelerating socialized mass production. Instead of relying on planned regulation exclusively, make full use of market regulation under the guidance of planning." This proposition was widely approved by economists and highly praised by people in the theoretical community at the time. It was considered a major step forward, a quantum leap on the theoretical level for recognizing that the socialist economy is a planned commodity economy.

This auspicious beginning was soon followed by setbacks. After April 1981, a series of articles appeared in the newspapers criticizing some of the viewpoints put forward by economists between 1979 and 1981, including the idea that the "socialist economy is a commodity economy or planned commodity economy" and the concepts of "planned commodity economy" and "macroeconomic planning and microeconomic market." These articles opposed "the theory of the socialist commodity economy" and "the theory of the planned commodity economy" on the grounds that "the socialist economy can only be a planned economy." "The hallmark of a planned economy is command planning. Command planning is a crucial expression of socialist ownership by the whole people. If we sum up our economy as a commodity economy, we will blur the essential distinction between a socialist economy and a capitalist economy." The articles also argued that the notion of a "planned commodity economy" is not right either because "the basis of such an economy is still a commodity economy. The planned economy is squeezed out." They contended that "these proposals cannot coexist with our socialist economic system. If we, in accordance with the principles of commodity economy, turn state enterprises into economic units that practice independent accounting and assume full responsibility for their own profits and losses and recognize competition as the driving force of economic development, we

will in effect be reforming China's economic management system not in accordance with the principles of socialist planned economy, but those of the capitalist market economy." The articles also said that "should we follow the principle—'planned regulation for the macroeconomy and market regulation for the microeconomy,' the macroeconomy may well come to nothing" and the "socialist planned economy will be weakened as a result."

As the report to the 12th CPC National People's Congress was being drafted, some comrades in the theoretical community were saying that the planned economy and the system of socialist public ownership would inevitably be weakened if all enterprises were turned into independent economic entities and all enterprise activities were primarily regulated by the market. These people also argued that despite the continuing existence of commodity production and commodity exchange in China, we absolutely must not therefore generalize our economy as a commodity economy. Otherwise, we would inevitably blur the line between a planned socialist economy and a laissez-faire capitalist economy as well as the essential difference between a socialist economy and capitalist economy. The relevant section in the report to the 12th CPC National Party Congress was amended to read as follows, "China practices a planned economy on the basis of public ownership. Planned production and circulation are the dominant element of China's national economy. At the same time, we allow the market to regulate, free from planning, the production and circulation of a portion of our products... This portion supplements planned production and circulation. It is subsidiary and secondary. With the planned economy as the overall balancer and market regulation in a supplementary role, the state will ensure the coordinated and proportionate development of the national economy." Subsequently dissenting opinions largely disappeared from the press.

Although opinions contrary to the position in the report could no longer be found in the press, the debate in the theoretical community continued. In late July 1984, several researchers from the Chinese Academy of Social Science wrote an article entitled "Commodity Economy Under Socialism Revisited" and circulated copies of it among old comrades. The article criticized "the idea of pitting a planned economy against a commodity economy" and called on us to reaffirm the previously rejected thesis that the "socialist economy is a planned commodity economy." This article was praised by a number of old comrades. In their comments on a letter dated 9 September from leading comrades on the State Council to the politburo of the CPC Central Committee, Deng Xiaoping and Chen Yun endorsed the following, "The socialist economy is a planned commodity economy based on public ownership. Planning must be effected through the law of value." Meanwhile, a group of economists had also proposed to the CPC Central Committee that the idea of a "socialist planned economy" be revived. This suggestion was subsequently accepted by

the drafting group for the "Decision of the Third Plenum of the 12th CPC Central Committee on Restructuring the Economic System" after consulting with a number of leading comrades in the theoretical community.

The "decision," adopted by the plenum, read in part, "Rise above the traditional idea that pits the planned economy against commodity economy. Understand clearly that the socialist planned economy must follow and apply the law of value on its own initiative and that it is a planned commodity economy based on public ownership. The full development of a commodity economy is a stage in social economic development that cannot be avoided. It is a prerequisite for modernizing China's economy." This way the establishment of a socialist commodity economy became the goal of economic development in China. Deng Xiaoping thought highly of the "decision" and told the meeting where it was adopted, "The 'decision' has created a new Marxist political economy." He also said, "What is so good about this development is that it explains what socialism is. It includes some new stuff, things that our ancestors never said. A document like this could not have been written without the practice of the past several years. This is truly adhering to socialism. The alternative is 'we would rather have the weed of socialism than the seedlings of capitalism,' as the gang of four put it." Comrade Chen Yun also said, "The 'decision,' examined and approved by the plenum, makes four basic points about restructuring the economic system that are consistent with the current reality in China. Today our economy is on a much larger scale as well as more complex than that in the 1950's. Some of the practices appropriate for the 1950's are no longer applicable today. It won't do if we continue today to copy mechanically the practices of the 1950's."

Subsequently the report to the 13th CPC Central Committee further declared that our task was to successfully apply the two tools: planned regulation and market regulation. "The development of socialist commodity economy is inseparable from the development and perfection of the market. Using market regulation is absolutely not the same as practicing capitalism. The scope of both planning and the market is society-wide." In so doing, the party liberated us from our archaic perception of the relations between planning and the market and achieved a consensus among the cadres and masses on the nature and goals of reform.

As for the evolution of the idea of a socialist commodity economy into the proposal for a "socialist market economy," some economists thought that the former's advantage was that it was consistent with the "Decision on Restructuring the Economic System" adopted by the Third Plenum of the 12th CPC Central Committee and was more readily acceptable to the public. Its drawback was that the expression "commodity economy," a Russian phrase, had no basis in Marx's original works. Nor was it part of the common language of modern economics. It fails to highlight the operating mechanism of

an economic system, indicating its basic means of allocating social resources. To give a clear idea of the operating mechanism, one has no choice but to take the trouble to add all sorts of supplementary explanations to indicate that it is related to the market economy. Moreover, while the commodity economy concept is related to the market economy, it is also different from it. They define the same kind of economy from two different perspectives. When we talk about the commodity economy, we think of it as distinct from the natural economy or, in the case of China today, from the product economy. The market economy, on the other hand, is opposed to the "centralized economy" or "command economy." To illustrate, the commodity economy was already quite widely developed in ancient China. A currency had appeared in this nation by the 10th century, six or seven centuries earlier than West Europe. Where there is commodity exchange, there is a market. Be that as it may, the market mechanism of ancient China was not in a position to allocate social labor and material resources. For this reason, the early maturation of the commodity economy in China does not mean that there was already a market economy in ancient China. The market economy is a commodity economy with a substantial measure of socialization. In a market economy, the market is the basic allocator of social resources. In essence, what economic reform in China is trying to do is to replace administrative orders with the market mechanism as the basic tool of resource allocation. In this sense, the socialist economy should be called a market economy.

The Significance of a Socialist Market Economy

Maybe because of their cautious and exploratory nature, scholars earlier talked about the market economy being a stage in the development of the socialist economy that cannot be bypassed, particularly in China. These are the reasons:

First, the Chinese tried to build socialism amid an underdeveloped commodity economy and backward economic and cultural conditions. Our basic mission has always been to do our best to develop productive forces. In the early days after the PRC was founded, China put together a planned economy and concentrated a vast amount of material, financial, and human resources on national capital construction, particularly the development of heavy industry, making possible the emergence of an independent industrial structure within a short period of time and rapidly enhancing the nation's defense capability. Both were essential to building a socialist economy and raising China's international stature. However, as the scale of economic activities kept expanding daily and economic activities became more complex and diversified, the highly centralized planned economy grew increasingly out of step with the objective requirements of economic development. In the course of developing productive forces, how are we to allocate resources properly in order to achieve the best possible combination of elements of production while avoiding or reducing waste and increasing economic returns

steadily? This is a vital issue that has not been properly addressed over the years. Now it seems that the "invisible hand" of market mechanism plays a role here that is irreplaceable. Through changes in market supply-and-demand relations and price movements. It guides production and consumption, influences the flow of social resources, and steers what limited resources we have to where they are most needed, including the most efficient enterprises.

Second, China is in the initial stage of socialism right now where public ownership is dominant but where a variety of economies coexist. Inter-enterprise exchange must observe the principle of the exchange of equal value. Practice proves that it would be difficult to effect the exchange of equal value when the state is setting prices through planning or regulating prices at regular intervals. The market mechanism is necessary to the exchange of equal value. Through changes in prices and by supporting the good and curbing the bad, the market mechanism can effectively encourage enterprises to forge ahead resourcefully, to take risks, and to be a pioneer diligently. In pursuit of its self-interests, the enterprise will inevitably determine its production based on what society needs and carry out production in the most economical way possible. If this is what every enterprise does, then social needs would be met and the costs of economic activities will be kept to the lowest level.

Third, labor is the principal means of livelihood available to man throughout the development of socialism. The pursuit of personal material interests is the driving force behind production and economic activities. How society distributes material interests among workers must and can comply with the principal of the exchange of equal labor. The exchange of equal labor can only take place based on one criterion—socially necessary labor—formed by the market and expressed as prices. Take away the market, and we would have difficulty both deciding objectively and fairly whether labor is economical or wasteful and measuring the level of efficiency.

Fourth, the goal of socialist production is to satisfy the needs of all members of society. These needs are most complex, diversified, and ever-changing. Administrative fiat and command planning alone can never do a good job in gathering information relating to these needs accurately and promptly and using it to guide production and circulation. Instead we must rely on the market, the super-sensitive antenna and indicator that reaches every corner of the countryside and cities. In a big country like China where the level of economic and cultural development is highly uneven, in particular, the gathering, feedback, and processing of information is all the more inseparable from the market mechanism.

Fifth, socialist modernization requires opening up to the outside world, which, in turn, means linking the domestic with the international markets. If we are to attract foreign capital, absorb technology and qualified personnel, and put our own funds, technology, and qualified personnel on the international market, we must

do things in accordance with established international practices and make our rules consistent with their international counterparts. Only by creating a comprehensive nationwide unified mass market linked to the international market can we conduct foreign economic relations smoothly and successfully.

For the reasons explained above, according to people who argue that "there should be a market economy under socialism as well," socialists should not repudiate the market economy. The thesis that "there should be a market economy under socialism as well" does not tell us much. Moreover, what it does say about integrating planning with the market must be considered less than a breakthrough. It was not long, therefore, before it gave way to the concept that "socialism should be a market economy." Proponents of the latter proposition argue that under the old order, people were so accustomed to thinking of the planned economy as the only realization of socialism, the most basic characteristic of socialism, that they ignored the multiple flaws of an economic system that relies solely on command planning. After the call for market orientation in reform was sounded, the public again focused on some of the adverse effects of the spontaneity of the market while seldom noticing the positive effects of the market in stimulating enterprise competition and driving economic growth. The public is especially ignorant of the fact that the market economy is a means of resource allocation and its constructive role in optimizing resource allocation. Clearly, all this suggests that public understanding is one-sided.

After accumulating experience and making comparisons and evaluations through a dozen years of reform, we can all see clearly that under the traditional economic system, the entire society was a single monolithic giant factory. The state directly interfered in microeconomic decision-making at the enterprise level. Financially it had a monopoly on collecting revenue and spending. It was also the sole allocator of manpower. The departments in charge were like strict parents; enterprises were controlled to death. But strictness was accompanied by paternalism; the state assumed all the risks and enterprises ate off the big rice pot of the state. The result was a host of ills that our reform now seeks to cure. Essentially economic reform seeks to replace command planning as a principal tool of resource allocation with the market mechanism. The basic task of accelerating the restructuring of the economic system is to establish a socialist market economy as soon as possible. Crucial to such a task is correctly understanding things like planning and the market as well as their relations, in other words, under macroeconomic regulation and control by the state, attach more importance to the market and make better use of it in resource allocation. Emphasizing the important, even dominant, role of the market in resource allocation is precisely what the expression "market economy" is all about.

Turning to the issue of planned guidance, experts who call for a socialist market economy think that some

comrades are skeptical about the presence and development of a market economy because of the need for planned guidance. We should see that a "pure market economy" free from administrative regulation and interference has never existed. The modern market economy invariably coexists with macroeconomic regulation, administrative guidance, and planned guidance of varying shades and to varying extents. So the socialist market economy is simply a market economy under planned guidance in the same way that the socialist commodity economy is called a planned commodity economy. The socialist economy has been a planned economy from the very beginning. There has never been any ambiguity about this point in public thinking. When it comes to creating a socialist market economy, we cannot reject the planned economy in practice. Nor should we do so in theory. It is normal for different opinions and viewpoints to emerge and be debated as our understanding evolves. Since the topics we are dealing with—planning, market, and the establishment of a new economic system—are so vital, there is all the more reason for us to keep understanding, keep practicing, and keep reviewing. This is the only way to come up with a more scientific conclusion. In essence this kind of repetition deepens our understanding of scientific socialism.

The Significance of Affirming Socialist Market Economy

Affirming the socialist market economy has profound and far-reaching significance for socialist economic theory, socialist economic reform, and socialist economic development.

First of all, it represents a major breakthrough in socialist economic theory. The founders of Marxism visualized the socialist economy as a pure planned economy because they perceived socialism to be based on highly developed social productive forces. In the real world, socialism is very different from what they imagined. Social productive forces are still underdeveloped and commodity monetary relations are commonplace. Under these circumstances, why can't the socialist system use the market economy to develop productive forces? The practice of the socialist economy since reform went under way fully proves the correctness of this thesis.

The affirmation of the socialist market economy is another major theoretical breakthrough after the theory of the socialist commodity economy and the theory of the initial stage of socialism. It also represents a natural extension of the socialist economic theory following the two major theories mentioned above. It will help further clear our ideological roadblocks and enhance people's market consciousness, which will only further liberate and develop productive forces.

Second, it will go a long way toward spurring economic restructuring. At present economic restructuring in China is poised for a major assault. Since continuing

reform has been hampered by certain ideological barriers, the affirmation of the socialist market economy may clarify our thinking in this area. In a socialist market economy, we should orient the enterprises more toward the market and really transform them into market entities that enjoy decision-making authority in their operations, that assume responsibility for their own profits and losses, and that are capable of self-development and self-discipline; in short, independent, not "relatively independent," commodity producers and operators.

Third, it will help perfect a socialist market system and market mechanism in the smallest amount of time possible. The affirmation of the socialist market economy will help us further sort out the relations among the state, the market, and enterprises, and their respective functions. That way the government will be able to reduce its intervention in enterprise microeconomic affairs and spend more energies on nurturing a market system and coordinating the market mechanism.

Fourth, it will help steer us toward competition on the international market. The affirmation of the socialist market economy should help China become more competitive on the international marketplace after its accession to the General Agreement on Tariffs and Trade [GATT]. We may say that it will be difficult to compete on the world market without vigorously pushing for the development of a market economy at home. After China becomes a member of GATT, other nations will try to break into our market even if we don't do likewise. Only by quickly exposing our enterprises, particularly large and mid-sized state enterprises, to the ups and downs of the market can we enable them to hold their own and do well on the even more turbulent international market of the future.

Economists who have been researching the issue think that there are essential differences between the socialist market economy and capitalist market economy. For one thing, they are based on different ownership systems; the former, on public ownership; the latter, on private ownership. Second, they differ in income distribution. In a socialist market economy, income derived from the ownership of properties is not the major component of income. A fair distribution of income is required. In a capitalist market economy, income derived from the ownership of properties is the principal component of incomes. Generally speaking, income disparities are considerable in such an economy.

After the affirmation of the socialist market economy, income distribution will ultimately become the crux of the issue. The normal and effective operations of the market are premised on competition. Competition, in turn, is driven by interests. This is precisely the reason why the capitalist market economy can operate normally. What about the socialist market economy? Socialism requires the fair distribution of income. Egalitarian distribution is not fair distribution and is certainly inconsistent with the market mechanism. No need

to go into detail here. Well, then, will fair income distribution impede the normal and effective operations of the market? How can we make the market operate normally and effectively while ensuring fair distribution? Involved here are many issues that bear a close examination.

In response to the question of fair distribution, Dong Fureng [5516 6534 4356], the famous economist said, the crucial thing is maintaining the necessary and appropriate income gaps. If you do not allow income gaps, you will not drive competition, thereby hindering the normal and effective operations of the market. On the other hand, a socialist market cannot have excessive income gaps, but must demand fair distribution. This is a tough issue. A number of Western nations that follow a welfare state policy or some other policy of a socialist nature have run into the same problem. In some countries, an excess of welfare and the lack of significant income disparities have hindered competition and thwarted efforts to enhance efficiency. What they are facing is a dilemma between fairness and efficiency. A similar problem exists in a socialist market economy. We must do what we can to ensure that the people's basic needs are gradually met and that public living standards steadily improve. This is dictated by the socialist principle of common wealth. Accordingly we should permit the existence of income gaps. In this historic era when an underdeveloped economy gives way to a developed one, as the egalitarian traditional economy is replaced by a market economy, and at a time when the market develops and matures, income gaps will necessarily widen. This must be allowed to happen. The alternatives would be unfavorable both to economic development and to the maturing and perfection of the market. After this historic era, however, we must take greater pains to regulate income gaps. Certainly, the regulation of income distribution merits our attention even in the present stage. About the relations between fairness and efficiency, we should bring about the fair distribution of incomes provided the interests of efficiency are served first. If efficiency is not raised, we cannot ensure that the public's basic needs will be satisfied, that the citizens' incomes will go up over time, and that everybody will become rich. When we say serving the interests of efficiency first, we mean that fair income distribution must be made conditional upon the normal and effective functioning of the market. In other words, fair income distribution must not interfere with or weaken the stimulating or restraining effects of the interest mechanism or hamper competition.

Some economists have pointed out that the market economy is not omnipotent. As a means of allocating social resources, the market economy has weaknesses as well as strengths. Market regulation is flawed in at least these several ways. First, it may lead to instability in economic operations, or increase the unstable elements (a major problem brought on by ferocious competition) in economic operations. Second, it cannot ensure equitable income distribution. In fact, efficiency may have to

be achieved at the expense of equity. (Essentially speaking, market mechanism has no interest in the ideals of equitable distribution and income equity.) Third, while it has a built-in tendency to promote technological progress, it does nothing to increase the production of public goods (because the price mechanism is inoperative in this area.) Fourth, while it manages to harmonize personal interests with public interests up to a point (that is, Adam Smith's "invisible hand" working to advance both public interests and social objectives,) the market mechanism often leads to the misuse and waste of social resources and to environmental pollution (caused by economic interests but outside the realm of interests). As a result, the state must take up the responsibility in these areas, remedy the defects of the market mechanism, minimize its shortcomings, and solve problems that the marketplace cannot solve. These are arduous tasks that only a government in a socialist market economy can truly accomplish.

The Price Issue in a Socialist Market Economy

Economists say they do not study and examine the socialist market economy for the sake of theory; instead they want to achieve an economic take-off in China after a socialist market economy is truly established. On this matter, therefore, we should proceed on both the theoretical and practical fronts. Even as we build up a body of theory on the socialist market economy, we should go about building a foundation for it.

Right now there are several important things that need to be done to build a foundation for the market economy. For instance, we need to carry out price reform, deregulate the prices of products of competitive sectors, and create a circulation system based on commercial organizations that compete against one another. Property rights need to be defined and enterprises have to be reformed. The financial, banking, and other macroeconomic regulatory and control systems need to be overhauled. Moreover, a market order where the basic rule of the game is fair competition must be created. Laws have to be formulated to protect fair trading and prohibit monopolistic behavior, so on and so forth. Earlier it was the opinion of most people that among all these reforms price reform was the most difficult but also the most crucial.

To create a foundation for the market economy, we cannot avoid price reform. Experts who thought so a couple of years ago still believe that their judgement has not been overtaken by events. However, price reform is no longer the principal challenge of reform. Price reform is a must because the price mechanism lies at the very heart of the market mechanism. It is hard to imagine a socialist market economy without a set of sound price ratios and a flexible market price-setting system. In the early 1980's, Dr. A Ge Ya La [7093 2706 3907 2139] of the World Bank did a study on the relations between price distortions and economic growth in 31 developing nations in the 1970's. His conclusion was that the combined price distortion index, which was the simple

average of seven price distortion indices, was clearly inversely related to the economic growth rate. The 10 nations with a low price distortion index had an economic growth rate that was 2 percentage points higher than that of the middle group, while countries with a high price distortion index had an economic growth rate 2 percentage points lower than the average. Because their price distortions were of varying magnitude, countries at the two ends differed by as much as 4 percentage points in economic growth rate. That shows the tremendous importance of the price issue.

Except for certain agricultural products (such as grain) where protection prices would be needed on a long-term basis and a number of public utilities and naturally monopolistic sectors whose prices need to be set or regulated by the state, the prices of most commodities should be determined by market supply demand. This is because only the prices formed through free competition can reflect the relative scarcity of a resource and can allocate resources effectively.

What we must pay attention to now is the question of timing. Some comrades suggest that we skip price reform while accelerating the pace of financial reform, particularly the development of a stock trading market (secondary). The fact of the matter is that if prices are not straightened out, profits would be meaningless. A large margin of profit may be the result of sound management, but it could also be due to distorted price ratios. A narrow margin of profit may be caused by mismanagement, but it can also mean that the enterprise in question is at a disadvantage price-wise. If enterprise profits become meaningless, we would not know what profits to expect. Even the regulation of fund supply and demand with profits would be problematic. Share prices represent our profit expectations. It would be unrealistic to expect too much from the securities market at a time when commodity prices have not been rationalized, the securities issuing market (primary market) has not attained a measure of maturation, there are few standardized shareholding limited companies, and the public still knows little about the financial conditions of companies. In terms of logical sequence, therefore, the rationalization of commodity prices must precede price reform for capital goods. Needless to say, in real life reforms in the various sectors cannot be divided into stages in a hard and fast manner; there must be some intermingling and adaptations. Still it would seem that it would not work if we put the cart before the horse. If we bungle the job here, we may end up with a bubble economy where people make a fortune by speculating in shares and securities. The international experience in recent years proves that economic bubble adversely affects healthy economic development. We must take pains to avoid the emergence of such an anomaly as soon as we start putting together a market economy.

Another issue in price reform that bears some research is the relations between inflation and price reform. Given an excessive aggregate demand and prolonged inflation, the market mechanism will not be able to function

properly even with price reform. Price reform, therefore, must precede any effort to limit aggregate demand.

An economist who has made outstanding contributions to the study of price reform theory thinks that we were afforded an excellent opportunity to move boldly in price reform between the fall of 1988 and the fall of 1989 when the drive to improve the economic climate and rectify the economic order was under way and the market was sluggish. For a variety of reasons we let the opportunity slip by. Today inflationary pressures are again building up, which makes it hard to accelerate price reform. On the other hand, there is now a greater measure of agreement among people in the economic community and economic theoretical circles that the share of price reform has dropped to 30 percent or so. This being the case, price reform is entirely achievable in the next few years provided we take the right moves. In contrast, other reforms, including enterprise reform, financial reform, and tax reform have become more difficult and will require greater efforts on our part.

The discussion on the socialist market economy is deepening. It is worth pointing out that the discussion is remarkable for the way it ties in with reality, particularly with individuals and people's actual thinking. Opinions expressed by the economists taking part in the discussion are emotion-laden, reflecting the urgency of our times, at the same time enhancing its practical significance.

Some articles point out that while scientific understanding is important in that it shapes public opinion on reform and economic development and constitutes its spiritual driving force, even more essential is the practice as guided by such scientific understanding—surmounting difficulties, surviving setbacks, and closing in on our clearly defined objectives. These days we talk about establishing a socialist market economy, which translates into such specific tasks as speeding up the formation and maturation of a market, expediting price reform vigorously but steadily, and accelerating enterprise reform. If we fail to actually accomplish these tasks in earnest, then all the talk about creating a socialist market economy would be just that, empty talk that would do nothing to advance our cause. The formation and maturation of the market mechanism is an arduous process. Some enterprises long used to the old order will not be able to adapt to the new socialist market economic order and its rules as well as the competitive pressures inherent in a market economy any time soon. They are still unable to transform such pressures into a driving force. It is undeniable that both our theoretical workers and people in the enterprises are not yet fully mentally prepared for the socialist market economy. For instance, they lack the attributes that a market mechanism requires. It is painful to point out this situation. On the other hand, the only way we can intensify and speed up reform is to face up to it.

Wu Jinglian [0702 2417 8834], the well-known economist, wrote in an article, "Looking back on my life, in my youth I gradually embraced the truth that only

revolution can save China. After I entered middle age, particularly through the exploration of the past dozen years, I became convinced that only market-oriented reform can revitalize China. Since the Third Plenum of the 11th CPC Central Committee in December 1978, the restructuring of China's economic system has made considerable strides, not only making economic construction so successful that it has caught the eye of the world, but also pushing itself beyond the point of no return. There is no way we can go back to the old order. Thus the goal of establishing a new economic system will be achieved sooner or later. The question is how. If we follow the line in effect since the Third Plenum of the 11th CPC Central Committee, mobilize the forces of all society, and advance reform in an organized way, this goal will be achieved fairly soon. This approach also will create less social turmoil and cost less. This is most ideal. Alternatively, we may follow a roundabout route, with both the party and the people paying a heavier price. Obviously we should do everything we can to take a shorter, less costly route. In the same way that the founding of new China in 1949 enabled the Chinese people to stand up politically, market-oriented reform that began in the late 1970's will certainly make China stand up economically and turn it into a prosperous and powerful modernized nation."

FINANCE, BANKING

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[Article by Zhao Zhongshi (6392 1813 0013): "On Transforming the Operational Mechanism of Specialized Banks"]

[Text] The transformation of the operational mechanism of enterprises is the primary task in our country's current economic structural reform and is also a key issue faced by our country's specialized banks in deepening reform.

I. Analysis of Current Operational Mechanism of Specialized Banks

Through over 10 years reform, the operational mechanism of our country's specialized banks has been, or is now being, improved in many respects. For example, the enterprise-like operational style of "deciding one's own operations, taking responsibility for one's own profits and losses, assuming the risks oneself, and seeking one's own development" has been initially established and the traditional image of banks as purely government organs has begun to see some changes. A financial regulatory and control framework which combines direct management with indirect regulation and control has been initially established and there has been a start in breaking through the traditional direct-control financial model. Financial assets and liabilities operations have appeared in diverse forms and the traditional banking operational system of "business based on guaranteed

deposits and loans" has seen the beginnings of change. However, seen from the macroeconomic angle of the current overall economic structural activity, and the innate requirement for self-development by specialized banks in the new situation, many contradictions and problems still exist in the current operational mechanism of specialized banks.

1. Weakening the market mechanism.

A large volume of banking business activities of specialized banks still rely on, or make use of, administrative measures. The volume of activities which make use of the market mechanism is very small.

A. Seen from the relationship between the central bank and the specialized banks, it is still a case of money allocation instead of funds regulation. The central bank's regulation and management of the total credit volume and normal fund operation activities in general relies on administrative measures, including money allocation and short-term credit input. Even in implementing economic regulatory policies, they often use the administrative measure of money allocation for guidance and backup. Under this mechanism, the specialized banks in controlling their own fund operations often do not concentrate their efforts on researching the market, orienting towards the market, and moving towards the market. They concentrate instead on studying the regulatory and control relationship with the central bank (this can be considered a "countermeasure"). This results in the specialized banks manifesting, in respect of funds liabilities, a high degree of reliance on money allocation by the central bank.

B. Seen from the relationship between the specialized banks and the enterprises, it is still the case that there is credit distribution rather than credit regulation and a funds supply system rather than a funds credit system. The injection of credit funds into enterprises by the specialized banks often has obvious credit distribution characteristic, and the orientation of credit use is often subject to instructions from the local government. It is sometimes the case that the credit is distributed by list to the enterprises and there is little regulation whereby credit is regulated in accordance with the laws of the market economy. At the same time, the specialized banks still implement, in respect of quite a number of enterprises, a funds supply system and credit is given out but not recovered and while the amounts can be increased they are difficult to reduce.

C. Seen from the relationship between the upper and lower levels within the specialized banks, it is still the case that there is a system of egalitarian and indiscriminate distribution of funds instead of a system of funds financing. There is also a system of control of scale rather than a system of planned regulation. It is only that the method of egalitarian and indiscriminate distribution of funds has been assigned "macroeconomic regulation and control" names such as "second-level reserve funds" and "general funds".

2. The weakening of the development mechanism

A. There is a lack of appropriate operational capital. That is, there is lack of a credit fund expansion system. On the one hand, the state has failed to supplement the credit funds of the specialized banks for many years. On the other hand, the degree of growth in credit funds has been far lower than the degree of growth in the scale of assets and liability operations by the specialized banks. The ratio of the corresponding growth in the scale of assets and liabilities as against the growth in credit funds in specialized banks is generally 12:1, and in some cases, it has reached a low level of 15:1.

B. The retained profits proportion is too low and specialized banks' "development funds" are unable to spur their own development. Let us take the Agricultural Bank in Hubei Province as an example. Calculated in accordance with the "4:3:3" profit retention ratio which current state financial policies stipulate for specialized banks, after we deduct from the profits retained by the Agricultural Bank throughout the whole province the: "Bonus" and "welfare" funds for the staff and workers and the management costs which the provincial and prefectural (city) branches have to pay (such as cadre school fees, transport vehicle repair and replacement costs, and so on), the funds left for each county branch-level unit to use in development totals less than 150,000 yuan. This is only sufficient for expenditure on equipment repair and there is no way to even talk about bringing a development mechanism into play.

C. The proportion of retention for bad debts reserve funds is too low and the compensatory mechanism for asset losses is quite weak. If we take the Hubei Provincial Agricultural Bank as an example, according to the current bad debt reserve fund retention proportion, throughout the whole province, the bank can retain over 20 million yuan as a reserve fund for bad debts. However, this represents only about 0.1 percent of total credit assets of the Agricultural Bank throughout the province and actual assets losses are far in excess of 0.1 percent.

D. A self-controlled funds operational system is lacking. As the policy-nature [zheng ce xing 2398 4595 1198] functions and operational functions of our country's specialized banks have not yet been put in order, in the current funds operation by specialized banks, quite a proportion of funds disbursed (over 50 percent of total credit funds) are policy-nature credit and specific-project controlled credit. The proportion of funds which the bank itself operates is very small, the temporal-spatial scope of self-regulation in funds operation is very narrow, and development is thus restricted.

3. The organizational and operational systems are ossified.

A. The industrial division of specialized bank business. The main basis on which the four major specialized banks—the Industrial and Commercial Bank, the Agricultural Bank, the Construction Bank, and the Bank of China—were established was the industrial division of

work within the national economy. Such an arrangement has undoubtedly played a positive role in enlivening financing so that it can serve industry. However, as the industrial scope is too restrictive, it has resulted in funds obstacles and business barriers between the various specialized banks. This is not beneficial to business interflow and competition between specialized banks, nor is it beneficial to the rational flow and optimized organization of social funds. It is also very unsuited to the new situation of a socialized and market-oriented commodity economy.

B. The administrative dispersal of branch organizations. The various branches of the specialized banks and the distribution of their business networks basically follows the administrative structural model. This means that the business operations of the various specialized banks are still under the control of the various levels of local government. It is thus difficult for the banks to regulate and guide funds operation activities in accordance with regional economic characteristics. This obstructs the formation of a service structure in which there is a symmetry between the financial industry and the level of development of the regional commodity economy. It also reduces the operational efficiency of money credit and the layout efficiency within the financial organs.

C. The unitary nature of the ownership system. The four major specialized banks at present—the Industrial and Commercial Bank, the Agricultural Bank, the Construction Bank, and the Bank of China—are uniformly state-owned, the state is the “boss” of all these banks, and the banks’ earnings or losses are all handled by the state. It is thus difficult to implement true enterprise operations.

D. The duplicated and overlapping functions of management organs. The management organs of the specialized banks are all duplicated at the various management levels, the functional division of work is too detailed and there are excessive links. This seriously reduces the overall benefits of operations by the specialized bank organizations.

4. The rigidity of the labor, personnel, and distribution mechanisms.

This is centrally manifested as “the three cans and the three cannots.” That is, cadres can be promoted, but cannot be demoted; staff and workers can be employed but cannot be dismissed; and income can rise but cannot fall. It is thus not possible to form an encouragement mechanism where there is competition between skilled personnel and where the capable can be promoted and the mediocre demoted, while the capable receive more and the mediocre receive less. This situation fetters bringing into play the enthusiasm and creativity of the cadres and the staff and workers.

5. The aging of the assets and liabilities operational modes.

Seen from the angle of liabilities business, excluding the specific-project liabilities constituted by the central

bank’s short-term credit, of the self-operated liabilities, traditional deposit liabilities constitute over 90 percent. Seen from the angle of assets business, excluding the policy-nature credit, of the self-operated assets, the traditional credit assets also constitute above 90 percent of the total.

6. Weakening of the risks benefits mechanism.

Regardless of which specialized bank we speak of, up till now, none has established a risk management mechanism which appraises, forecasts, guards against, and transfers risk. At the same time, in the operational activities of the specialized banks there are frequently observed nonbeneficial activities where costs are not calculated when assuming liabilities, when the earnings of assets are not considered, and where accounting does not assess profits and losses.

II. Focuses of Attention in Transforming the Operational Mechanism of Specialized Banks

At present, the focus of attention in transforming the operational mechanism of specialized banks should be placed on the following areas:

1. Speeding the fostering of a market mechanism to increase the degree to which the market mechanism regulates the operational activities of specialized banks.

A. Efforts should be made in opening up and developing financial markets. The opening up and development of financial markets involves a combination of financial planning regulation and regulation through market mechanism. It is an important link in guiding the operational activities of the specialized banks. This has major significance in expanding the scope of the funds operations of specialized banks, in strengthening the self-regulatory functions, and in promoting a transformation of the operational mechanism. At present, under the overall plans of, and regulation and control by, the central bank, we should grasp the building of various same-industry call-money markets, security issue markets, bill discounting markets, and security transfer markets in various areas. At the same time, we should standardize the issue of treasury bonds as well as enterprise bonds and shares. It might also be possible to appropriately issue various types of medium- and long-term bonds, to form a complete financial market system.

B. Reconstructing the funds management systems of specialized banks and exploring how to implement a mechanism by which to manage the ratio between assets and liabilities. The management of the ratio between assets and liabilities is essentially a method or system by which the market mechanism is used to regulate the assets and liabilities business of specialized banks. When the funds flow in the market gives rise to changes in the total volume or structure of liabilities, there will be a corresponding change in the total volume or structure of assets. Thus, it can reflect a sensitivity in respect of market regulation. This is beneficial to having specialized banks expand their assets and liability business

operations in accordance with the patterns of funds movement in the market and in accordance with differences in time and place. It is also beneficial to regulation and control of total financial volumes and eliminating the various defects of control purely through planning. In the current situation where there is no overall management of the ratio between assets and liabilities, we must actively organize experimental points, and on the other hand, we must make great improvements in the current funds planning system to reduce the scope of mandatory planning and specific-project controls and to expand the scope of guidance plans. This will result in a greater market content in the scale of funds financing by specialized banks and thus it will be possible to make a gradual transition towards management of the ratio between assets and liabilities.

2. Building a specialized bank development mechanism and striving to foster a self-development capacity for specialized banks.

A. Perfecting a mechanism for expanding the specialized banks own funds. First, in accordance with the degree of growth in the scale of assets and liabilities of the specialized banks, there should be an annual increase in their credit funds. Second, the current profit retention method used in specialized banks must be reformed. At present, when the central financial administration sets the profit plans for specialized banks, they only consider the scale of the assets operation by the specialized bank and ignore the large amount of various types of financial funds taken up by, or paid out in advance, as policy-nature credit. Such credit activity falls under the category of nongrowth stock. Therefore, this part of the total scale should be handled by implementing charge accounts. The financial administration, when fixing the profit plans for the specialized banks, should only fix these in accordance with the scale of interest which the specialized banks can earn. At the same time, the retained profit proportion for specialized banks should be raised appropriately. Third, the proportion of the specialized banks' assets risk reserve fund should be appropriately raised to strengthen their capacity to withstand operational risks.

B. Putting the relationship between policy-nature functions and operational-nature functions in order and establishing a system by which specialized banks operate their own funds. In respect of the various types of policy-nature credit and the corresponding policy-nature liabilities currently borne by the specialized banks, we should implement categorized management and independent accounting. The profits should be handed up to the central bank and the losses should be subsidized by the central bank. On this basis, we can establish a system by which specialized banks operate their own funds. The assets and liabilities business of the self-operated system should be completely handled by the specialized banks

which will, in accordance with the demands of enterprise-type operations, engage in self-operation and self-regulation and control, assuming responsibility for their own profits and losses.

C. Establishing a new business development mechanism. Within the various specialized banks we should establish new business development departments which, in accordance with the demands of the development of the commodity economy and the financial market, should regularly develop new financial products. In order to encourage the development of business, we should establish a new business development encouragement system and provide rewards for units and individuals who make contributions to developing business.

D. Speeding up the pace of modernizing management. At the same time as developing business, specialized banks should pay great attention to the renewal and transformation of management methods and technology, to continually accord with the demands of developing a modern commodity economy and to strengthen market competitiveness.

3. Establishing a complete business risk management mechanism and strengthening the capacity of the specialized banks to bear risks themselves.

A. Establishing an assets risks security mechanism. The avenues are: Establishing a system whereby there is strict and scientific appraisal and assessment of credit targets; implementing in an overall way a system where credit provision and credit verification are separated; establishing a system where for large amounts of credit, a guarantor against risks is required; stipulating credit limits for enterprises; and establishing a security system whereby the borrower hands over security in advance.

B. Establishing an assets risk advance alarm mechanism. The first idea is to rationally establish a system of indicators providing advance warning for the assets risk of specialized banks whereby, at fixed intervals, the assets operation situation is monitored. The second idea is to establish for the specialized banks a quantitative model for an assets risk advance warning mechanism, to raise the scientific nature of the assets risk advance warning alarm.

C. Establishing an assets risk transformation mechanism. The key lies in expanding business in the areas of fully-secured credit, mortgage credit, and bill discounting credit and reducing the proportion of unsecured loan credit.

D. Establishing an assets risk redemption mechanism. A system of enterprise mergers and a system of auctioning off enterprises should be given to the enterprises' managing departments to implement; the specialized banks should, at set intervals, organize the redistribution of idle enterprise equipment and flexible and diverse credit recovery policies should be implemented. Through these avenues, it will be possible to recover short-term bad debts and recover assets losses.

4. Reforming the organizational and operational systems to improve the benefits of the organization and operation of the specialized banks.

A. It is necessary to eliminate appropriately the obstacles based on industrial division of work which exist between the specialized banks and to allow them to engage in overlapping operations and develop appropriate competition within a reasonable scope.

B. It is necessary to break down the framework by which branch organs of specialized banks are established purely in accordance with the vertical administrative structure, changing it to where they are established in accordance with both the vertical administrative structure and horizontal regional structures. Operational organs should be established strictly in accordance with economic requirements to reduce the operational loads of specialized banks.

C. It is necessary to change the internal structural setup of the specialized banks' management organs and completely change the current situation whereby there are problems because management organ departments are too numerous, have overlapping functions, and have excessively detailed division of work, an excessive number of levels, and poor work efficiency. We could implement five major systems under the guidance of the banks managers: 1) An operational decisionmaking system comprising the office and the policy research and planning information departments; 2) an operations implementation system comprising the two large departments engaged in organizing funds and utilizing funds; 3) an operational budgetary and auditing system, comprising the accounting and auditing departments; 4) a supervisory and surety system, comprising the personnel, political work, discipline inspection, supervisory, security, trade union, and education departments; and 5) an administrative services system.

D. It is necessary to take in the shareholding system. In the four major specialized banks—the Industrial and Commercial Bank, the Agricultural Bank, the Construction Bank, and the Bank of China—we should appropriately take in the shareholding system mechanism being applied in the Communications Bank. First, experiments should be conducted on a small scale and later these should be expanded within an appropriate scope.

5. Taking in the mechanism of competition and reforming the labor, personnel, and distribution systems.

The core in reforming these three systems is the establishment within the specialized banks of an encouragement mechanism where the able can be promoted and those performing poorly can be demoted and the creation of an environment which is beneficial to allowing outstanding personnel to show their skills. To this end, we must first bravely reform the specialized bank cadre management system. The prefectural and county branch managers should not be appointed, but rather, should be employed through election or through seeking of applications and a period-of-tenure responsibility system

should be implemented. In respect of middle-level cadres, we can implement an appointment system. At the same time, we can implement in an overall way a system of exchanges of cadres between different regions. Second, we must reform the distribution system of specialized banks and gradually implement a system of rewards where wages are tied to labor and where bonuses are linked to results. The wage grades should be widened and decided on in accordance with work achievements and a graded wage system for personnel should be implemented. Third, the labor and employment system should be reformed. For existing staff and workers, a post appointment system should be implemented, while for new staff and workers a contract system should be introduced. At the same time, a system of rotating posts for staff and workers could be implemented.

III. Striving To Create Macroeconomic Environment for Transforming Operational Mechanism of Specialized Banks

The transformation of the operational mechanism of specialized banks undoubtedly requires an economic and financial market as a carrier and will undoubtedly produce various effects on macroeconomic financial activity. This requires a corresponding macroeconomic environment. Thus, we need to put the following five relationships in order:

1. The relationship between specialized banks and the central bank.

It is necessary to reform the system by which the central bank manages the business activities of the specialized banks. The central bank must change the current method of direct administrative control of specialized banks through short-term credit injection, into a system whereby the business activities of specialized banks are indirectly regulated and controlled through the financial market. The central bank will then be unable to directly decide the volume which the specialized banks will provide to society and will only be able to decide on the basic amount of money it will provide to the specialized banks. Then, through applying the basic money multiplier expansion mechanism, the economic levers such as guidance planning, recrediting, and reserve fund rates, it will be able to indirectly control the total volume of money supply in society. The specialized banks will then, within the restrictions constituted by the basic money provided by the central bank and the reserve fund rates, specifically determine the volume of money to supply to society on the basis of social demand for money.

2. The relationship between the specialized banks and the financial administration.

Apart from improving the financial policies which the financial administration implements in respect of the specialized banks, the most pressing task at present is to thoroughly resolve the problem whereby specialized bank credit funds are being used as funds by the financial administration. The credit issued by the specialized banks must not be advanced as financial funds. We must do all possible to assist the specialized banks to withdraw

that which has already been advanced. If it is not possible to withdraw it, a credit charge account for it should be instituted.

3. The relationship between specialized banks and the local governments.

Specialized banks are special enterprises which deal in money and credit and they must be responsible for the security of the financial assets. The leaders of local governments must not treat specialized banks as book-keeping organs. Under the precondition of observing relevant state policies and stipulations, the decisions as to investment orientation and volume of credit, whether credit should be provided to specific projects, how much should be provided, and the form of credit, should all be taken by the specialized banks in accordance with the laws of the commodity economy and the laws of credit funds movement. The specialized banks should thus decide on their own operations.

4. The relationship between the specialized banks and enterprises.

It is necessary to accelerate enterprise structural reform and accelerate the transformation of the enterprise operational mechanism. Enterprises must truly orient towards the market, form a multichannel market liability and market financing mechanism, and reduce the high degree of reliance on bank credit. The specialized banks must break down the system by which funds are supplied to enterprises and by using credit, interest rates, and other financial levers, guide enterprises toward the market.

5. The relationship between specialized banks and labor and personnel departments.

The labor and personnel departments should, in accordance with the actual demands of developing the business of specialized banks, set down a total number of cadres and staff and workers for the banks and allow the specialized banks to decide themselves on the way in which they employ the labor.

Analysis on Limitations of Stock Market

93CE0204A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 11, 11 Nov 92 pp 18-21

[Article by Huang Chaohan (7806 2600 5060): "A Sober Look at Current Stock Market Craze"]

[Text] 1. Stock Market Craze Taking Large Cities by Storm

Wave upon wave of stock market fever has been sweeping through all large coastal cities in China recently, enveloping not only Shanghai and Shenzhen, where China's two stock exchanges are located, but also other cities like Guangzhou, Tianjin, Hangzhou, Wuhan, and Haikou.

In December 1990 the stock price index on the Shanghai stock exchange stood at 100. By late May 1992 the index had skyrocketed to a record 1420 before retreating to 1180 by late July. Its Shenzhen counterpart, which was 100 in April 1991, had tumbled to 47 by September the same year and was tottering on the brink of a free fall. However, the index soared to 310 in late May 1992 before plunging to 260 toward the end of July. On the other hand, there are now 14 trading counters at the Shanghai stock exchange, up from seven in December 1990, a 100 percent increase. The volume of transactions also rose 900 percent during the same period, from 10 million yuan to 100 million or so. In addition, the two exchanges issued several kinds of special stock known as B shares, which are denominated in renminbi, to overseas investors.

While the Shenzhen and Shanghai stock exchanges each have their special features, the Shenzhen stock exchange is busier, its daily volume of business exceeding that of Shanghai two-fold. The latter, for its part, has been involved in a most ambitious push to expand its securities business internationally. The Shanghai stock exchange plans to increase the number of stock brokers from the present 29 to 81. Thirty-four new companies have completed preparations to issue A shares to the nation, including 11 which will also issue B shares for sale among foreign investors. Shanghai's ultimate goal is to become China's financial center.

When the Shanghai stock exchange opened its door for the first time in December 1990, the response of international financial institutions was fairly cool. Since then, however, a fundamental change has taken place. A host of foreign financial institutions with offices in Hong Kong have made plans to expand their business to China, with a special interest in B shares. By late June 1992, 14 foreign firms had set up a "China fund" with a total value of \$433 million. On the Chinese side, the Shenzhen stock exchange has been working very hard to have B shares listed for trading on the Hong Kong and Singapore stock exchanges.

Encouraged by the clear success stories of the Shenzhen and Shanghai stock exchanges, nine other provinces and municipalities, including Guangzhou, Tianjin, Shenyang, Xiamen, Wuhan, and Haikou, have been vying to be the home of China's next stock exchange. Some localities have even set up their own regional stock exchanges. Reportedly, however, only Tianjin has obtained preliminary approval from the central government and begun putting together China's third stock exchange.

Well, then, has stock trading really taken off in China?

2. Does the Stock Market Boom Have a Solid Base?

A stock market that has grown so rapidly must have been fueled by some powerful economic forces, including both mere expectations (that is, the psychological factor) and specific institutional factors. To begin with, we must

recognize that the Chinese economy is in a rapid expansion phase, 9 percent annually on the average throughout the 1980's and 7 percent in 1991. Based on the current trend, the Chinese economy could very well expand at a double-digit rate in 1992. Amid the worldwide economic recession, southern China is indeed a land of prosperity with enormous growth potential. In Guangdong, industry expanded 25.6 percent in the first four months of 1992 over the corresponding period last year; Hainan, 33.3 percent; and Fujian, 21.3 percent. The national average was 18.3 percent. Sustained economic growth often results in a substantial appreciation of the value of assets. Given the robust economic performance, therefore, people readily feel optimistic about the future of China's stock market.

The large amount of cash Chinese citizens have on hand, the result of ever-rising family incomes, is said to be another important factor contributing to the current stock market fever. In 1991, Chinese households had a combined 900 billion yuan (or \$164 billion) in saving deposits in the banks. The Chinese are believed to have even more in working funds, estimated to be a high 1,300 billion yuan. As wages rise along with the per capita income, saving deposits in Shanghai and Shenzhen alone amounted to 70 billion yuan, equivalent to about 20-fold of the total value of all shares issued. Yet there is a lack of suitable investment outlets. Although a real estate market has taken shape, it offers limited opportunities as yet to the local people. Investing in the stock market, therefore, becomes a highly attractive proposition to the man in the street. When you consider that interest rates are still very low in China, it is even easier to see why the Chinese pick the stock market. People lining up and scrambling to buy newly issued shares is a common sight in Chinese cities these days.

Just like many burgeoning stock markets in the Third World, however, the Chinese stock market cannot operate effectively for lack of a broad base and is highly susceptible to speculative manipulation. On this kind of stock market, share prices frequently fluctuate wildly, often in a way that bears no clear relationship to what is actually happening on the real economy. In effect this kind of stock market behavior owes more to fraudulent and deceptive practices motivated by selfish considerations and has nothing to do with hard targets like prices and rate of returns.

Accordingly, it seems that it makes more sense to explain the recent outburst of stock market bullishness by "external factors." When Deng Xiaoping inspected Shenzhen in late January 1992, the stock price index on the local stock exchange was a just a tad over 100. But what Deng Xiaoping said about the role of the stock market in China clearly changed the official position on this matter. In the new political climate that encourages reform, the Shenzhen stock price index briskly climbed to 200 in early April 1992 and continued its rally through May when it hit 300. It would appear therefore that it is

not China's two-digit economic growth rate but Deng Xiaoping's speech in southern China that caused the current stock market boom.

3. Did the Boom Happen Too Fast, Too Soon?

Let us raise an even more basic issue here: How strong really is the Chinese stock market?

As the stock market in China continues its upward surge, impatient people (not only Hong Kong and Taiwan people, but also foreign businessmen) often ignore a fundamental issue—the Chinese stock market is probably the most immature in the world—in their enthusiasm for the stock market. The meteoric rise of the stock price index hides some of the inherent flaws of the stock market. First, to the extent that the Chinese government still considers them an "experiment," the Shenzhen and Shanghai stock exchanges currently lack a clear direction and goals. Second, the Chinese stock market continues to operate in a unique macroeconomic climate that is "half tradition, half reform." Prices are grossly distorted. The enterprises which have listed their shares for trading on these two exchanges are not enterprises in a true market economy and are still free from the pressures of competition. Thus the so-called profits of these companies, whatever their level, have no major practical significance.

Even more serious, these two experimental stock exchanges have taken shape in the absence of some of the most fundamental institutional prerequisites, such as rules, regulations, and controls. Even now, after the two exchanges have undergone rapid growth, many basic requirements including standardized accounting procedures and an independent auditing system have not been created. Nor is there a securities law that spells out clearly in concept property rights, bankruptcy, the openness of a company and public disclosure requirements. All this makes the Shenzhen and Shanghai stock exchanges even more vulnerable to the manipulation and control of speculators.

Many Chinese officials and experts also believe, a little simplistically, that the stock market plays three useful roles in China: 1) stimulate economic development; 2) open up China further to the outside world; and 3) speed up economic reform. Such thinking seems logical and self-evident. However, if we analyze the present situation in China more closely, we can conclude that these so-called "useful roles" are not realistic. Here some discussion is in order. As a market of assets, the basic function of a stock market is to channel financial resources into productive investment. Yet this function exists only in economics textbooks; it is not part of the economic reality of most developing nations.

Historically speaking, the stock market fulfilled its economic role primarily in the United States and Britain. Germany, France, Italy, and Japan mainly relied on other means for their industrialization, such as raising capital through a development bank and enterprises using retained profits to build new industries, without

the stock market playing a visible role. In the last few decades, even old-line stock exchanges like those in New York and London have concerned themselves mainly with mergers, acquisitions, takeovers, and other creative financial activities, not the issue of new shares. Studies in Britain and the United States show that as far as net investment in nonfinancial firms are concerned, the stock market has actually had a negative effect in the period between 1970 and 1985. The history of development of Asia's four "mini-dragons," namely Korea, Taiwan, Singapore, and Hong Kong, makes it clear that during the take-off phase of industrialization the stock market in reality has not played much of a role in raising funds.

Will the development of the stock market further open China to the outside world? No doubt the existence and development in China of the stock market, a distinctively capitalist product, sends a clear signal to the outside world that China is determined to become an integral part of the global economic system. This does not suggest, however, that the stock market is an effective means of attracting foreign capital. China recently started offering B shares in an attempt to woo foreign capital, yet most of the inflow of foreign funds is expected to consist of speculative money. In the future China will certainly encourage large foreign-funded enterprises to issue shares on China's stock market as a way to secure some foreign exchange. But it is doubtful how much foreign funds this will really net. If the experience of other developing nations is anything to go by, the stock market has only limited success in attracting foreign capital for use in domestic economic development. For those nations with a dire need for foreign capital, a more important and effective means of attracting large amounts of foreign investment is to improve their domestic investment climate.

Can the stock market accelerate economic reform in China, particularly banking reform? A most glaring shortcoming of the socialist economic system is the inefficiency widespread in state enterprises, a result of the "softening of budgetary restraints." Li Yining [0632 0110 1337], a professor at Beijing University, argues that the shareholding system should be used to raise enterprise efficiency, ultimately leading to the formation of a stock market as a forum for trading shares. Right now over 3,200 enterprises in China are experimenting with the shareholding system. Their remarkable success has prompted the Chinese Government to promulgate a string of laws and regulations pertaining to shareholding enterprises.

To what extent will these microeconomic reform measures based on improved enterprise profits spur economic reform overall?

Professor Wu Jinglian [0702 2417 8834] of the Development Studies Center at the State Council is a leader of another reform school known as the "overall reform" group. This group calls for even more basic price reform

at the macroeconomic level. Wu Jinglian argues convincingly that as long as nothing is done to change the macroeconomic climate characterized by widespread price distortion, enterprises, whether they are run by the state or practice the shareholding system, cannot be all that efficient. He therefore suggests that macroeconomic reform is an even more urgent task. In short, China's stock market is still in its embryonic stage. Since there is a long way to go before it becomes an efficient market, it cannot serve as the key link in China's economic reform process.

In China the man in the street is still socially and psychologically unprepared for the speculative mechanism known as the stock market. A few years ago, when trading in shares first began, many Chinese people could not even make out the difference between "shares" and "bonds." The former is a kind of "capital stock"; it merely represents a right to demand surplus enterprise profits and assets. The latter is a form of liability. It is a commitment to repay interest for a specified period of time as well as principal. Thus the many novel kinds of "shares" of all shapes and forms that have cropped up in China are actually a cross between "shares" and "bonds," combining as they do a right to participate in enterprise surplus distribution with a pledge to repay principal. Without even a basic understanding or a decent comprehensive analysis of the nature of financial instruments, the Chinese people have overlooked the importance of dispersing the risk of shares. No wonder they treat the stock market as a form of gambling.

Indeed, in Korea, Taiwan, and other Asian Pacific nations, the stock market too resembled gambling in its first days when stock prices were highly volatile. This is particularly true of Taiwan. After soaring 1100 percent between 1986 and 1990, it plummeted 80 percent in just one year. Nevertheless in all these places capitalism has taken root. A simple sequence can be detected in the development of the economy in each of these countries: develop first, speculate later. The Beijing authorities should recognize this plain truth. Even in highly advanced Japan, the public has expressed a distaste for the financial maneuverings of speculators just as the Tokyo Stock Exchange showed signs of being overheated. To the Japanese people, the speculators are simply using "paper money" to make a killing.

4. Is the Stock Market Still Worth a Try?

Faced with a rising speculative fever, even cool-headed senior officials have publicly expressed their concern about the trends on China's stock market. After the plan of introducing B shares was unveiled, Vice Chairman Wang Baiming [3769 0130 2494] of the China Stock Exchange Management Committee warned that without a basic legal framework consisting of a securities law and company law, the issue of B shares shows that the Chinese stock market is developing too rapidly. More recently, as stock market speculative fever continues to rage unabatingly, President Li Guixian [2621 6311 7639] of the People's Bank of China sharply criticized

"blind stock mania" and announced that the plan to open China's third stock market has been put on hold temporarily.

Lately the Bombay stock exchange has been overtaken by a wave of speculative fever. While there is a strong growth momentum in China's economy at the moment, the possibility that a similar fate would befall China's stock market cannot be ruled out. Some people also argue that the current stock market boom can only add fuel to the flames of an already overheated economy, reinforcing the trend toward inflation.

No doubt the reformers within Beijing's ruling circles are still courageously experimenting with something as uncertain as the stock market. But if this experiment fails, it would affect banking reform. On the other hand, it would be an uphill battle to make this experiment valuable and meaningful, particularly considering that we fail to meet some essential preconditions. Meanwhile, the stock exchanges in Shanghai and Shenzhen are enthusiastically pushing for internationalization by listing B shares for trade on foreign stock markets. This will give them an excellent opportunity to make the necessary reforms and improve their operating efficiency to stimulate economic development.

China will probably have to spend more time than other developing nations in trying to turn its nascent stock market into a vibrant capital market. We can expect the development of China's stock market to be a bumpy ride, full of twists and turns.

Foreign Banks Need Encouragement, Regulation

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in Chinese No 10, 3 Oct 92 pp 15-20

[Article by Han Ying (7281 2503): "On Encouraging and Controlling Foreign Banks Entering China"]

[Text] As China opened its door wider to the outside world and the number of enterprises funded by direct foreign investment increased in the 1980's, China has been gradually admitting foreign banks as well, which have now become an organic part of China's banking system. To review practical experience and adapt to the new banking situation, we need to study these several issues:

I. Positive and Negative Consequences of Admitting Foreign Banks

For China poised on the threshold of economic takeoff, admitting foreign banks or doing so on a larger scale has these positive consequences.

1) Admitting foreign banks is an effective way to use foreign capital. Foreign banks are the tangible vehicle for capital in international borrowing and lending. A foreign bank entering China must be armed with a certain amount of foreign exchange funds, so essentially

when a foreign bank comes into China, it means an inflow of borrowed international capital which nevertheless does not increase China's foreign debt burden. Thus foreign banks are an important channel for the inflow of foreign capital. Accordant to relevant data, between 1980 and 1988, foreign exchange loans issued by foreign banks grew 73 percent annually on the average. In 1988 foreign banks and Sino-foreign joint venture banks in the Xiamen Special Economic Zone received \$33.69 million in foreign exchange deposits, 11.5 percent of the city's total. Corresponding figures for 1990 were \$42.81 million and 7.8 percent, respectively. The same banks lent out \$120.30 million in foreign exchange loans in 1988, or 36 percent of the city's total. Corresponding figures for 1989 were \$143.99 million and 36.3 percent, respectively, and 1990, \$127.17 million and 30.6 percent, respectively. Relative to their share of the city's total foreign exchange deposits, foreign banks account for a far larger share of its total foreign exchange loans. Their loans fund a host of key construction projects in the nation as well as the three kinds of enterprises that are either partially or wholly foreign-funded and are spread among a dozen industries, including energy, communications, transportation, textiles, chemical industry, raw materials, electronics, and tourism, powerfully spurring the development of an export-oriented economy in the zone.

2) The admission of foreign banks is an inevitable outcome of the two-way flow of international capital. Under its law of movement, the unidirectional flow of international capital soon gives way to a two-directional flow. This applies not only to the overall movement of world capital, but also to every form of capital movement. This is because changes in a nation's economic and financial advantage are a natural objective process. Moreover, the goals of the regulatory body's investment and financial regulatory and control policies often include a two-directional movement in order to secure greater economic interests. As China acquired more economic muscle and financial prowess since reform and the open policy began, it has been investing heavily overseas even as it works hard to attract foreign capital. The overseas organizations and activities of the Bank of China have been growing rapidly. Thus far the bank has set up over 400 branches in a dozen nations and regions in Asia, Europe, America, and Oceania. In the 11 years since 1979, the assets and deposits of its overseas branches grew 10-fold and 9.1-fold, respectively, while their lending rose 9.5-fold. Their after-tax profits also multiplied. The Bank of Industry and Commerce, Construction Bank, and Agricultural Bank, among others, have also begun opening branches abroad to develop their international banking business. Under these circumstances, the admission of foreign banks is inevitable. Moreover, it has paved the way for the entry of China's own banking institutions into other nations. Had we not admitted foreign banks, other nations, citing the principle of reciprocity, could have imposed restrictions on our banks trying to set up overseas branches and developing business on their soil.

3) The admission of foreign banks is a built-in requirement of our drive to speed up the development of an export-oriented economy. Finance is the lubricant of an economy. The development of an export-oriented economy needs to go hand in hand with an export-oriented banking system. The development of an export-oriented banking system includes the admission of foreign banks because their ability to provide international information, to settle accounts, and make short-term loans is what we need to use. When a foreign-funded enterprise invests in China, it will also need the services of a number of foreign banks. Whether or not a nation admits foreign banks and how it regulates the operations of such banks indicate its stage of economic development and the extent to which it is open to the outside world. In the course of industrialization and developing an export-oriented economy, many developing nations and regions have instituted an open policy regarding foreign banks. Moreover, the admission of foreign banks would attract in their wake the entry of even more foreign enterprises into China, which is what the development of an export-oriented economy needs.

4) The admission of foreign banks would help the rationalization of the financial structure and speed up the development of the financial market. A nation's financial structure is characterized by its financial institutions and the kinds, forms, and nature of the financial tools it employs and their scale. The maturity and level of development of a nation's financial market, on the other hand, are denoted by the trading structure and relative scale of its financial market, the principal lenders of short-term loans, and the financial tools it employs. Neither the formation of a sound financial structure nor that of an advanced financial market can be separated from the admission of foreign banks.

The admission of foreign banks generally has three adverse consequences:

1) It is a blow to the domestic banking industry and intensifies competition in the banking business. When you let in foreign banks, you necessarily have to give them some maneuvering room in which to operate and some market share. Most foreign banks are well-funded, command advanced technology, have numerous branches, good access to information, have formidable experience, and are well-managed. They enjoy an edge in the operating technology of international banking, in innovative capabilities, and in their ability to provide diversified good-quality services. For these reasons, foreign banks will certainly deal a heavy blow to domestic banks engaged in the foreign trade and foreign exchange business. While this kind of competition may push Chinese banks to improve operations and quality and enhance their ability to offer international banking services, they cannot but cause some instability in the banking industry. As far as competition is concerned, foreign banks enjoy a high degree of autonomy in determining the total amount of credit, interest rates, processing fees, and sales commissions. In contrast, Chinese banks engaged in foreign exchange and foreign trade

have no such autonomy. Since the two are not on a level playing field, the terms of competition being so unequal, the domestic banking industry finds it difficult to hold its own.

2) It interferes with the implementation of domestic monetary policy. The Central Bank of China primarily relies on these tools to realize its monetary policy: planned management, re-lending, control on interest rates, and deposit preparatory rate. Apart from the last-mentioned, none of these tools really works on foreign banks since they depend mainly on their home offices or some other domestic institutions as the source of their funds and rely on China's central bank only to a very limited extent. Foreign banks are exclusively driven by the pursuit of profits as the goal of their operations, while China's Central Bank has no effective and powerful control and regulatory methods. This makes it very easy for foreign banks to dodge monetary regulation in their operations and prevents the realization of the regulatory and control intent of the monetary policy, undercutting its effectiveness.

3) China has to pay a price in lost profits. The basic objective and motivation of the international operations of foreign banks is to make a profit. If we are to attract foreign banks, we must create an operating business environment conducive to their pursuit of profits. What goes into the formation of such an environment are regulations and preferential treatment governing the scope of operations, deposit preparatory rate, restrictions on interest rates, tax, use of premises, foreign exchange control, fund movement, and employment of personnel. It is also the space for comprehensive comparison. After a foreign bank studies our business environment and decides that it cannot make the profit it has anticipated, it will not come here. Thus our very decision to admit foreign banks and the actual act of admitting foreign banks already embody our intention to give up certain profits and indicate that we have in fact paid a price in diminished profits. That is not all. Armed with a wealth of experience and the knowledge of the tax codes of various nations, they are often able to avoid paying taxes legally, infringing upon our interests. This only raises the price we have to pay for attracting foreign banks.

II. The Objective Need To Attract More Foreign Banks and Tighten Their Regulation

Since the admission of foreign banks has both positive and negative consequences, we must decontrol foreign banks already in China to make the best use of them, at the same time improving their regulation steadily and cautiously, eliminating as many of their drawbacks as possible. The fact of the matter is that except for a handful of isolated countries, both developed and developing nations adopt toward foreign banks a policy that combines openness with regulation, although they may express it quite differently since nations vary in historical and socio-economic conditions and also because international economic and financial trends change over

time. Judging from the current state of foreign banks in China, the new picture in economic and financial development, and the broader trends in world banking, it is both realistic and necessary for China to admit more foreign banks and tighten and improve their regulation. This manifests itself in five ways:

1) The drive to improve the economic climate and rectify the economic order is now over. We are facing the task of developing an export-oriented economy and pushing the national economy to a new high. After three years of economic rectification, the explosion in aggregate demand and inflation have now been brought to an end and the irrationalities in the product mix and industrial structure as well as chaos in the circulation system have been corrected. This creates a new opportunity for the reform and open policy and economic development. To fuel the all-round revitalization of the national economy, we must continue reform, accelerate the pace of opening up to the outside world, and go all out to develop an export-oriented economy. This has now become the consensus of the entire party from top to bottom and of the entire nation, particularly after Comrade Deng Xiaoping delivered the important speech while he was inspecting the south early this year. Given this situation, we must put together an outward-looking banking system to match an export-oriented economy. Not only are we objectively required to admit more foreign banks in absolute terms, but we must also expand their geographical distribution from south to north and from the coast to the interior. In fact places like Shenzhen, Xiamen, and Shanghai are already saturated with foreign banks. If we continue to confine foreign banks to Shanghai and the several special economic zones in the south, then the development of an export-oriented economy will be hampered for lack of an outward-looking banking system.

2) China's central bank has accumulated considerable experience in formulating and implementing a monetary policy, put together the rudiments of a body of rules for regulating banking institutions and the financial market. The various specialized banks in the nation which handle international financial business are also becoming more and more competitive. Since 1984, when a central bank system was formally created, the central bank has gradually put together many tools, both administrative and economic, including planned regulation and market regulation, as it goes about carrying out financial and macroeconomic regulation and control. Some of these tools are entirely applicable to foreign banks, such as the deposit preparatory rate. Others may not be as applicable but can be used to some extent with certain modifications. Since foreign banks are still prohibited from accepting renminbi deposits by domestic enterprises or making renminbi loans to them, their ability to offset the effect of the central bank's macroeconomic financial regulation and control is limited in scope. Moreover, both advanced nations in the West and developing nations have accumulated much successful experiences in admitting and regulating foreign banks.

We should feel completely free to borrow and apply such experiences in the light of the specific conditions in China. Judging from the situation in the various specialized banks at home, their ability to handle international banking is on the rise. As the nation's bank specializing in foreign exchange and foreign trade, the Bank of China has long joined the ranks of the world's top 50 banks, both its fund reserves and scale of operations having grown spectacularly. Of the Bank of China's total assets, 70 to 80 percent are foreign exchange assets, over half of them in its overseas operations. The domestic branches of the Bank of China not only offer a range of foreign exchange and foreign trade services, but also handle renminbi transactions. In addition to offering such traditional services as accepting foreign exchange deposits and making foreign exchange loans, its overseas branches issue credit cards and handle import-export account settlement. They buy and sell foreign exchange and bonds and are involved in other monetary market operations. They provide account settlement services in the dollar, British pound, German mark, and Japanese yen; issue credit cards and travelers' checks; rent safety deposit boxes; put together syndicated loans; do credit checks, and are into investment consulting. In recent years the Bank of Industry and Commerce, Agricultural Bank, Construction Bank, and Communications Bank have been working to find an expanded niche for themselves in international banking and the account settlement business. As a result they have significantly enhanced their foreign exchange funds and expanded their scale of operations. Their operations are becoming more and more computerized. With their ample renminbi resources, they are also well placed to aid the development of the nation's export-oriented enterprises. To sum up, we may say we are equipped to withstand the disruption that the coming of yet more foreign banks may pose to the implementation of our monetary policy by the Central Bank and have the potential ability to tolerate the pressures that the entry of more foreign banks will exert on domestic banks seeking to launch their own foreign exchange and foreign trade business.

3) The trend toward internationalization and deregulation in world banking requires all nations to relax banking controls and open up their domestic industry to the outside world. The dominant trends in banking since the 1980's have been internationalization and deregulation. Basically this means that domestically a country eases banking controls, including those governing the establishment of offices and branches, interest rates, scope of operations, and market participation, and externally, expands its international banking operations, broadens its range of services and products, and increases its number of branches. In accordance with the principle of reciprocity and mutual benefit, the nation is also required to open up its domestic banking industry by allowing foreign banks to open branches on its soil, widen the scope of operations of foreign banks, and allow foreign banks to compete with domestic banks on equal terms. Even developed nations like Japan, which at one point severely restricted the entry of foreign banks

and their scope of operations, have been forced since the mid-1980's to loosen controls on foreign banks, liberalizing restrictions on the number of branches a foreign bank can set up and their location, as well as gradually broadening their scope of operations. Besides, China is in the process of applying for accession to the General Agreement on Tariffs and Trade [GATT]. To be admitted to GATT, one of the commitments China has to make is to open up the domestic banking industry and liberalize restrictions on the entry of foreign banks. The international banking environment in the real world being what it is, our decision to let in more foreign banks will only help us in our effort to create an open banking system and develop an international financial center in China. Thus the initiation of international financial cooperation on an even higher level and on a larger scope should be considered a wise move that is consistent with the integration of capital markets in the world and the liberalization trend in the international banking industry.

4) Of the foreign banks already in China, a good number behave with only short-term interests in mind and even break the law. The Chinese, for their part, have been half-hearted in their regulation and supervision. Foreign banks and Sino-foreign joint venture banks are authorized to accept foreign exchange deposits, make foreign exchange loans, remit foreign exchange, and settle foreign exchange accounts. They can also engage in the guaranty business and investment, buy and sell foreign exchange, discount foreign currency bills, and buy and sell securities. In addition, they are authorized to accept renminbi deposits from foreign-funded enterprises and make renminbi loans to them. In reality, foreign banks have displayed a highly uneven interest in the above lineup of operations. They have been cool to voting trust operations, which are high-risk and low-profit, but are desperately angling for work in international account settlement and are keen to make loans secured with foreign exchange, both of which are high-risk and high-profit, in the process depriving the treasury of the nontrade foreign exchange incomes that should otherwise have come its way via the Bank of China. In 1989, foreign banks in China collected a total of \$2.47 billion, yet loaned out just \$1.5 billion. The eight foreign banks and Sino-foreign joint venture banks in the Xiamen Special Economic Zone accounted for 36 percent of all foreign exchange loans in the city in 1988, 36.3 percent in 1989, and 30.6 percent in 1990, yet absorbed 50 percent, 52 percent, 48 percent, and 53.7 percent of all foreign exchange export earnings in those three years and 1991, respectively. Some foreign banks compete in illegal ways, spending on entertainment twice the approved amount, which exceeds what is normally spent on entertainment in international banking activities. These banks flex their "entertainment" muscle to grab more than their share of foreign trade and exchange settlement funds, take on without authorization account settlement business which the Bank of China should handle under state regulations. To earn the goodwill of domestic enterprises and to grab business, the foreign

banks transfer their foreign exchange deposits overseas in violation of the nation's foreign exchange control regulations and without the approval of the State Administration of Exchange Control. Clearly this goes against China's original intent in admitting foreign banks. At present, however, there are no effective supervisory tools to supervise or guide them.

5) Foreign banks already in China move profits around and avoid paying taxes in all sorts of ways. There is no adequate legal basis for the regulation of foreign banks in finance and exchange matters. Nor do we have the necessary means to punish misconduct. There is a rule of thumb in international banking regarding the setting up of overseas branches: "Lose money the first year, break even in the second, and make a profit starting in the third year." Most foreign banks in China boast a standard of management higher than that of their Chinese counterparts and pursue profitable lines of business aggressively. So it would only be logical for them to have a wider margin of profit than domestic banks. Yet many foreign banks which were among the first to open in China are still losing money or are marginally profitable. In effect they are taking advantage of the failure of China's laws and regulations to spell out clearly the local fund utility rate, total amount of deposits, head office funds utilization rate, as well as the way in which working funds may be transferred out of the country. Exploiting these loopholes, they have succeeded in moving China's foreign exchange overseas to earn a profit and evading taxes in ways legal and otherwise. As of late 1986, the 19 foreign banks in the special economic zones had \$986 million in foreign exchange deposits in all while their loans amounted to only \$286 million, yielding a fund utilization rate of merely 20 to 30 percent. The bulk of the remaining foreign exchange has been transferred abroad. The existing regulatory laws and regulations include no clear detailed provisions on penalties to be meted out to law-breakers. Nor do they provide a sound and comprehensive inspection system, making it impossible to actually carry out effective supervision.

III. Steps, Strategies and Related Measures To Admit More Foreign Banks and Tighten the Regulation of Foreign Banks

In light of the basic circumstances in China's economy and banking industry, the requirements of the strategy of developing an export-oriented economy, existing problems in the operations of foreign banks already in China, and the weaknesses in current foreign bank regulation, we make the following proposals regarding the admission of more foreign banks and the strengthening of foreign bank regulation in the Eighth Five-Year Plan:

1) Expand the geographical area where foreign banks can operate. Be flexible about the types of foreign banks allowed into the country and the ways in which they operate. In 1990 there were 38 foreign banks and Sino-foreign joint venture banks in China, along with 218 representative offices. By late June 1992, the number of

foreign banking institutions had risen to 49, in addition to 220 representative offices. The first group is distributed among the five special economic zones, namely Xiamen, Shenzhen, Shantou, Zhuhai, and Hainan Province, and Shanghai. The latter group is scattered more widely. Consider increasing the number of foreign banks to about 76 or so in the Eighth Five-Year Plan, expanding their geographical distribution to include such open cities as Harbin, Shenyang, Dalian, Tianjin, Qinhuaogdao, Qingdao, Weihai, Lianyungang, Nanjing, Wuhan, Chongqing, Ningbo, Fuzhou, and Guangzhou. By any measure—the scale of their export-oriented economy, transportation, communications, and other infrastructural facilities—the five cities of Dalian, Tianjin, Qingdao, Fuzhou, and Guangzhou are equipped to admit foreign banks, so they may take the lead. The other cities, for their part, should create the conditions for receiving foreign banks without delay. After they have completed the groundwork for admitting foreign banks, they should be given the green light. Proceed from reality and plan comprehensively and carefully to ensure that the foreign banks admitted constitute a sound mix and represent diverse types and operating styles.

2) Broaden the scope of operations of foreign banks as appropriate but keep renminbi operations as they are. Based on the goals of China's policy of foreign bank admission, we should expand the scope of foreign exchange operations of foreign banks and certain marginal services as appropriate. For instance, allow them to issue foreign currency deposit slips and commercial papers; provide credit cards and travellers' checks; purchase B shares; act as the sole agent for foreign currency securities; and offer leasing, financial consulting, and financial information services. Since the 1970's, new innovative practices and new products have come into use in international banking. Bearing in mind the specific conditions in China, foreign banks may be authorized to use these new financial instruments and offer new financial products such as convenience in issuing notes, long-term foreign exchange contracts, time right trading, long-term interest rate agreement, currency exchange, and interest rate exchange. While this will complicate foreign bank regulation, we will be better able to meet the diverse needs of foreign-funded enterprises and export-oriented enterprises in the nation. On the other hand, the existing regulation that authorizes foreign banks to accept foreign exchange deposits from and make renminbi loans to foreign-funded enterprises should not be eased any further. If a client strapped for renminbi funds has a genuine need, a foreign bank may provide foreign exchange guarantees or reserve letters of credit, but the renminbi loan itself should come from a Chinese specialized bank. Domestic banks these days are still unable to withstand this kind of competitive pressure. Allowing foreign banks to make renminbi loans will also make it harder for the government to control the scale of credit. Nor will it contribute to China's original intent in admitting foreign banks, which is to use foreign capital.

3) Using international practices as a guide, supplement and improve the existing laws regulating foreign banking institutions and clarify the penalties for breaking the law. At present, most laws and regulations relating to the regulation and supervision of foreign banks are contained in the "Management Regulations for Foreign Banks and Sino-Foreign Joint Venture Banks in Special Economic Zones" of April 1985, "Provisional Regulations on the Management of Foreign Banks and Sino-Foreign Joint Venture Banks in Special Economic Zones" of June 1987, and the "Management Methods for Foreign Banks and Sino-Foreign Joint Venture Banks in Shanghai" of September 1990. These laws and regulations are highly local. Some have become out-dated. Some are too broad and generalized and not policy-based. Nor do they constitute a coherent body of legislation. Accordingly, they no longer meet the needs of admitting more foreign banks and improving their regulation. They should be supplemented, amended, and improved, bearing in mind the actual needs of our drive to admit more foreign banks and existing problems in foreign bank regulation, and learning from foreign experiences and international practices. To begin with, we should waste no time in formulating "Management Regulations for Foreign Banking Institutions and Sino-Foreign Joint Venture Banking Institutions," "International Banking Law," and "Bank Tax Law," all of them to be nationally applicable. Using these laws as a basis, the next step is for the localities to draw up management rules and detailed regulations of implementation suited for local conditions, thus forming a comprehensive body of laws and regulations for regulating foreign banks. In putting together such a body of laws, we must consider the following points: 1) Put a highly efficient and authoritative organization in charge of regulation. Right now the Chinese employees of foreign banks and Sino-foreign joint venture banks are overseen by the foreign affairs office of the People's Bank; their financial auditing is the responsibility of the auditing office of the People's Bank; and actual specific operations are supervised by the foreign capital office of the State Administration of Exchange Control. The State Administration of Exchange Control is also responsible for issuing permits authorizing them to handle foreign exchange. Since this kind of fragmented and divided management easily gives rise to loopholes, we should sort out relations without delay and designate a single agency as the regulatory body. There was a case in Shenzhen in which a foreign bank asked the auditing department of the People's Bank to explain a certain provision in a new set of regulations. The auditing department could not come up with an answer because it had not received its copy of the document. In the end, it was the foreign bank that took the initiative to send the department a xeroxed copy. 2) Under the "management regulations," the registered capital and operating funds of a foreign bank must not be less than the foreign currency equivalents of 80 million yuan and 40 million yuan, respectively. These numbers have now become too small because of changes in the exchange rates in recent years. According to the "management methods," the minimum registered capital is

\$30 million and the head office must contribute not less than \$10 million in operating funds. The gap between these two numbers is too wide. In the light of changes in exchange rates, they should be adjusted in accordance with the value of the dollar. 3) There should be strict controls on the outward transfer of a foreign bank's operating funds. We may set a sufficient operating funds rate and require foreign banks to maintain their operating funds at or above that rate. On the other hand, the remittance of after-tax profits should be liberalized. At present just the opposite is true. The "management regulations" have no clear provisions for the transfer of operating funds outside the country. The "management methods" require a foreign bank to keep 30 percent of its capital in China as interest-bearing capital, which is too low a figure. At the same time, the same document stipulates that a foreign bank keep 25 percent of its after-tax profits on Chinese territory, which goes against accepted international practices. This is the reason why foreign banks have been able to operate without capital and evade paying taxes. They deposit their operating funds in their home banks or Chinese banks overseas to earn high interest and borrow from other banks when the need arises. Some foreign banks even shift funds overseas after being inspected while choosing to pay interest on the funds they borrow from their home offices. 4) To steer foreign banks toward the trust and investment business, we may stipulate that these operations account for no less than 50 percent of total assets, with investment accounting for no more than 15 percent. Taking a leaf from Korea's book, we should also cut the income tax on interest and capital gains. 5) The tax system and tax code should be made consistent with international practices. For instance, it is international practice to list operating bad debt reserve funds before tax, usually at the rate of less than 1 percent of the loan balance. China's State Administration of Taxation, however, insists that it be paid after tax and at a high rate of 3 percent. This is not right. Foreign banks in special economic zones are required to pay income tax at 15 percent and industrial and commercial tax at 3 percent. Currently Shenzhen and Xiamen exempt foreign banks from the industrial and commercial tax for 10 and five years, respectively, and tax foreign banks the same way as foreign-funded enterprises. Yet according to international practice, interest on loans is not taxed. Thus some of the things we do are inconsistent with international practices or unjustifiable. 6) Formulate regulations to spell out clearly the penalties for law-breaking and apply them uniformly. The "management regulations" and "provisional regulations" contain no detailed and concrete provisions on penalties. The "management regulations" do include detailed penal provisions, but they are limited in their geographical applicability.

4) Integrate the drive to admit more foreign banks and tighten their regulation with the effort to continue banking reform and foreign exchange control reform. The central bank must reform the tools and ways in which it regulates and controls the banking industry and gradually explores the utilization of economic tools like

interest rates, deposit reserve rate, open market, rediscount rate, adequate capital rate, and capital mobility rate to regulate and control the operations and activities of foreign banks and Sino-foreign joint venture banks. Commercialize the Bank of China's domestic branches and other domestic banks involved in the foreign exchange and foreign trade business. Give them more decision-making authority in their operations, for instance, by lifting restrictions on the scale of foreign exchange lending and authorizing them to adjust interest rates up or down, distribute wages and bonuses, dispose of after-tax profits, and make personnel decisions. In tax and other matters, domestic banks may gradually be accorded the same treatment as foreign banks. As far as grassroots banking institutions are concerned, their rate of profit retention should be raised and their own funds should be raised. Increase their cooperation as they compete with foreign banks. Within a bank, improve coordination among the various departments—credit, account settlement, and savings. Urge the foreign trade sector and enterprises authorized to export on their own to present a united front with Chinese banks in account settlement to prevent an outflow of profits. Bearing in mind what it takes to perfect the financial market and develop an international banking center, we should explore the necessity and practicality of establishing an off-shore international financial market in Shanghai and Shenzhen. Such a move will not only help China attract foreign banks and foreign capital, making it possible for it to raise foreign capital in off-shore markets, but it will also give China access to income derived from processing fees. Turning to exchange control for foreign banks, we must liberalize restrictions and simplify procedures in accordance with laws and regulations on foreign banks, on the one hand, and curb speculation that occurs as foreign banks trade in foreign exchange, on the other. Consider emulating what the Western advanced nations do to handle the money supply gap—deciding on a level as an appropriate percentage of capital. Also consider gradually liberalizing foreign exchange restrictions on domestic banks.

5) Integrate the drive to admit more foreign banks and tighten foreign bank regulation with our effort to expand Chinese banking institutions abroad and increase their range of products and with our quest for investment and trade superiority. Admitting more foreign banks, on the one hand, and Chinese banking institutions establishing their presence overseas, on the other, are the two sides of the same coin, namely our drive to use foreign capital effectively and profit from a diversified form of international division of labor. Generally speaking, China can only adopt a conditional protectionist policy; it would not be advisable for us to regulate foreign banks and our banking institutions overseas on a basis of reciprocity, mutual benefit, and equality. Nevertheless, we should make that our policy goal up to a point and within specific limits to pave the way for the entry of Chinese banks into other countries. In admitting a foreign bank into China, we may try to work out a conditional bilateral mutual benefit agreement with the nation

involved. For instance, in return or China's permission to open up shop in a particular location and operate within specified limits, the other side agrees to give China preferential terms in trade, investment, and labor export.

6) Further improve the supervision and inspection system for foreign banks in such matters as tax, accounting, form-reporting, and auditing. To begin with, we should determine the contents of such a system based on the laws and regulations relating to foreign bank regulation and the principle of having a uniform policy, using the usual standards in international banking as a guide. We can then work out a reasonable and scientific system of targets so that the supervision and inspection by one department is coordinated with that of another. Candidates for inspection include the adequacy of the deposit reserve fund; the legality of the way a bank accepts deposits, sets up an account, and issues a loan; the accuracy with which loans are reported and registered; the timeliness with which foreign exchange is transferred and deposited, the completeness with which remittances, both trade and nontrade, are handled; the propriety with which operating funds are transferred and utilized; and the mobility of assets. The agencies should familiarize themselves with a bank's internal control system, the way it lends money—to whom, in what form, the extent of concentration in one industry, and the risk factor, how bad debt reserve funds are withdrawn, assets and liabilities, profits and losses, and the distribution of after-tax profits. Through supervision and inspection, a bank must be put under all-round analysis to see if it breaks the law in its operations and evades paying taxes. If it does, it must be punished as lightly or severely as the circumstances warrant. Also, regular full-fledged inspections must be combined with routine monitoring and analyses, the results of which are to be reported in a form, and specialized inspection and supervision. In Shanghai, Shenzhen, Xiamen, and other places with a heavy foreign bank presence, a trade association of banks should be set up as the first step toward creating a self-inspection and self-policing system for the banking industry. In addition, we should master the regulatory laws and regulations of those nations where the home offices of foreign banks are located and step up information exchange and cooperation with regulatory bodies in those countries.

Shanghai Stock Exchange Sets Monthly Volume Record

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[Text] Shanghai, January 30 (XINHUA)—The total trading volume of securities on the Shanghai Stock Exchange hit a record of 23.95 billion yuan in the first month of this year, some 18 times the figure for the same period of last year.

Today's SHANGHAI SECURITIES NEWS reported that the trading volume in the month also surpassed

one-third of last year's volume, according to statistics. The trading volume was 64.8 billion yuan last year, or six times the figure in 1991.

The exchange witnessed a startling comeback after New Year's Day. In the first 18 business days alone, the trading volume topped 23.148 billion yuan-worth, over 96 percent of the month's total.

On January 14 a record 65 million shares were traded, with a total value of 1.98 billion yuan.

The general index of the Shanghai Stock Exchange closed at 1,198.48 points yesterday, up 418.09 points over last month and an increase of 53.57 percent.

Among other securities, the trading of treasury bonds took the lead, with some 678 million yuan-worth traded this month.

Experts said that total trading volume of securities in Shanghai this year is expected to top 200 billion yuan-worth.

AGRICULTURE

Major Problems Confronting Rural Reform

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[CHINA'S RURAL ECONOMY] in Chinese No 10,
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[Article by Du Ying (2629 7751): "Recommendations for Focus in Rural Reform"]

[Excerpt] [passage omitted] Focus of Next Phase of Rural Reform

1) Rural Financial Reform. Peasants nationwide currently have 400 billion yuan in saving deposits in addition to about 100 billion yuan in cash on hand. These funds, plus funds of other major rural institutions, amount to a substantial sum of money. How to use peasants' money to put the rural house in order is a major issue; there are some conflicts and roadblocks along the way. For instance, after peasants' cooperative funds are set up, are they to remain outside and separate from the banking system or are they to be incorporated into it? The operation of the cooperative funds will be enormously helpful in providing short-term loans in the rural community. Some experts, including a number at the World Bank, however, think that in the absence of a risk fund and reserve fund, the depositor will be taking too big a risk and there is no guarantee for the security of fund operations. To solve this problem, we may require the payment of risk funds and reserve funds. But to whom? Either the Agricultural Bank or the People's Bank in town. In that case, will they come under the control of the credit plan? We should be even more vigilant against the possibility of that becoming another cooperative joining the old financial system where it will eat from the big rice pot like the rest. Since the reform of state specialized banks and credit cooperatives won't

happen anytime soon and since the maturing of rural finance is not something that can be delayed, I think we should go all out to develop the rural cooperative funds. When they have grown to a certain size, we may consider linking them in a network to ensure the security of fund operations.

As our next step, we must expedite the reorganization of elements of production within an even wider area. This will not be accomplished without a market for funds. Without the glue of finance, we lack the most important part. Of the six projects undertaken by Japan's rural associations, five are money-losing undertakings; the only profitable one is cooperative finance. Only the money derived from the latter has enabled the associations to support their other services. These days the rural governments have nothing at their disposal; yet they are supposed to provide socialized services. How? Some services lose money and must be subsidized by government funds or cooperative financing. This is why the countryside must get a grip on finance, not only indirect finance, but also direct finance such as the issue of shares and bonds by township and town enterprises. Another possibility is the insurance business. In Huaihua, the local government and insurance company started offering insurance coverage jointly and it was not long before the rural insurance industry took off.

2) Reform the Prices of Agricultural Products, the Procurement, Selling, and Circulation System, and Create a Market System. Examine what follow-up actions to take after prices are decontrolled. Specifically, several issues are involved here: 1) the regulation of reserves. If we lack both ample grain reserves and a risk fund system, the price fluctuations which may follow price decontrol will inevitably lead to the return of the old system and old practices. Hence the need to stabilize the market and market prices and prevent extensive price fluctuations. 2) Tax system. In the past we used to call the difference between government prices and market prices "hidden taxes." After price decontrol, a portion of the hidden taxes will come out into the open. Should the state take away this chunk of money or should it remain in the countryside? This again involves the reform of the agricultural tax system. The prices of agricultural products and the tax system must be considered together comprehensively. 3) Establish a comprehensive market centered on wholesale markets for agricultural products. At the lowest level is the rural county fair trade, in between are the regional wholesale markets, and at the top are the central-level wholesale markets. As far as the development of futures trading is concerned, right now there are certain things which fail to keep up with the regional and central-level wholesale markets. For instance, the market is divorced from the banks, but cannot settle accounts by itself. Under the existing membership system, only official enterprises can trade on the market, so access to the market is limited. How can a futures market come into being without speculators (brokers)? Another issue concerns capital construction. There are now two kinds of wholesale markets. One

consists of standardized but devitalized wholesale markets, most of them run by the government. The other kind is made up of private unstandardized but vitalized wholesale markets. A question applicable to both kinds is this: What formats or methods should be used to run wholesale markets? To what extent should government be involved? In what ways? 4) Circulation, particularly the main circulation channels. Again this issue involves reforming state and cooperative commerce, separating two kinds of functions, removing regional barriers, and encouraging peasants to enter the circulation arena.

3) Strategy for Developing Township and Town Enterprises. The latest round of rural industrial restructuring must still mainly revolve around township and town enterprises, but with a touch of the 1990's. In other words, use the shareholding system to solve the property rights problem, develop groups as a means of organizing enterprises, and integrate urban and rural areas in locating enterprises geographically. Many township and town enterprises across the nation have now adopted the shareholding system or shareholding cooperative system. At the beginning, we must not be too demanding in the way of standards. Get them off the ground first. Then tackle related issues as they develop, such as the transfer of shareholding rights. As far as the geographical distribution of township and town enterprises is concerned, the word is urban-rural integration. At present the industrial mix among township enterprises is unsound, with over 80 percent of them being in the manufacturing sector while those in the primary and tertiary sectors account for under 20 percent, the very opposite of the pattern of distribution by industry among small and mid-sized enterprises in Hong Kong. The nation's entire economic structure was lopsided to begin with, a problem that will only get worse if a similarly lopsided structure is recreated among township and town enterprises. In the past several years these enterprises' share of the nation's gross value of industrial output has been rising by 1.9 percentage points annually to reach the current share of 33 percent, or 47 percent by the end of the century. If this structure persists, compounding the imbalance in the overall economy, it will be a severe problem. What accounts for this structure is the low level of urbanization. Lagging urbanization impedes the development of a tertiary industry. Rural industrialization is the industrialization of under-urbanization. The distribution of township and town enterprises is too fragmented, with more than 95 percent of them in the countryside. Apparently the saying "leaving the land without leaving one's village" is no longer applicable as it neither meets the needs of the next phase of large-scale rural restructuring nor complies with the usual principles of industrialization. In the future a major issue to be considered in mapping out a development strategy for township and town enterprises is the creation of small industrial zones or industrial development zones, perhaps to be called peasants' towns, in small and mid-sized cities, county towns, and organic towns. Township and town enterprises should be attracted to market towns and small and mid-sized cities. Of the nation's 461 cities,

those whose population ranges from 30,000 to 100,000 account for just 6 percent of the nation's total urban population, forming an inverted pyramid structure. Mega-cities are basically saturated with people, whereas there is plenty of room for growth in cities whose population ranges between 30,000 and 100,000. When we consider the development of township and town enterprises in the context of urbanization, we simply have to arrive at this conclusion: create small industrial zones. This raises the issue of the entry of peasants into cities. We need to break with the permanent residence registration system and create a development zone residency. If a person pays a development fee which may be anywhere from several thousand yuan to 10,000 yuan, he will be allowed to enter the city. We can call this entering the city with capital and the payment urban construction fee. The person will be responsible for his own grain ration and his requirement will not be incorporated in commodity grain. People who want to enter a development zone also must meet certain requirements. For one thing, they must invest and open a factory or store in the zone. For another, they must produce evidence from the village government that shows they have returned their contracted land. By so doing, we will speed up both rural urbanization and the introduction of suitable scale management in agriculture. Our current rate of urbanization is 20 percent lower than that of nations with comparable per capita GNP. How to spur rural urbanization? Township and town enterprises is a great invention by China in rural urbanization. The establishment of small industrial zones will be another innovation by the Chinese in rural urbanization. This is urbanization with a new twist, namely, peasants using their own funds to build their own cities. A case in point is Longgang in Wenzhou, a model that should be vigorously promoted. The use of peasants' own funds to build peasants' towns and develop a new urban system not dependent on government funds should be the keynote of the development of township and town enterprises in the 1990's. Once urbanization becomes a reality, township and town enterprises in the tertiary sector will immediately take off, which will only help improve the entire mix of township and town enterprises. There are other advantages as well, such as economizing on land and infrastructural investment and creating an even more favorable external environment for township and town enterprises.

There is also the issue of forming township enterprise groups. In 1988 a strategy was put forward to prepare township and town enterprises in coastal provinces for competition on the international marketplace. Now we need to bring up the subject again. The nonagricultural sector in rural China employs 100 million people today and 200 million in the future. Add the 200 million industrial workers in the cities and you have a combined industrial army of 400 million, more than the total number of industrial workers in all leading industrialized nations. The domestic market cannot absorb all industrial goods made at home. Hence the need for an export drive. Another reason is that if the best qualified

coastal region does not push for an export-oriented economy but only eyes the domestic market, how can the economy and township enterprises in central and western China develop? Pre-liberation Shanghai, for instance, used to have an export-oriented economy. Later, for a variety of historical reasons, it turned inward and catered to the domestic market exclusively. Thus township and town enterprises along the coast must look outward and ease themselves out of the market to create more opportunities for central and western China. As small and mid-sized concerns, township and town enterprises pay excessively high opportunity costs and trading expenses when they seek to break into the international market. This is why, in addition to overhauling the foreign trade system, we must first form enterprise groups if we are to develop an export-oriented economy along the coast. Township enterprise groups may be formed by region or by trade. Or funds may be used to first put together enterprises authorized to engage in foreign trade. Once they grow to be the size of groups, they can then compete on the international market. This matter must be considered on a strategic level.

4) Rural Grassroots Organizations. Any thinking on this matter must proceed from the following question: How can we link the 210 million peasant households, who are widely scattered, with a unified mass market at home as well as the international market? Intermediate organizations are essential to lowering trading costs. Some people insist that such intermediate organizations be community based, others say they must be along trade or professional lines. I suggest diversification. An organization can take any format provided it serves as a bridge between peasant households and the market, helps peasant households avoid market risks and natural risks, and helps individual households solve the problems or do the things they cannot solve or do by themselves. Nowadays there are over 100,000 peasant professional or technical associations. Then there are community or professional cooperative organizations as well as service organizations that adopt the shareholding system or are individually run and privately owned. These are formats that intermediate organizations can take. The purpose of these organizations is to provide peasant households with a range of services (technology, funds, information, sales). In this sense, when we say developing a socialized service system, we mean creating various methods in which elements of production can be combined at the grass roots in the countryside both inside agriculture and outside agriculture. Essentially this means developing the tertiary industry in the countryside. When household management is not accompanied by a variety of supra-peasant household organizational formats, the liberation of the energy of household management will be hampered. What does socialized pre-production and after-production comprehensive agricultural services mean? As I see it, it means none other than the development of the tertiary industry. The fact that it is socialized and not community-based means we must rise above the community. The reason is that some services must be operated on a

large scale. There is also the question of their relations with peasants. If the organizations are cooperative in nature, they should provide peasants with high-quality services at low costs. Other organizations may maintain a purely commercial relationship with peasants.

5) Land. The land system is the basic institution in the countryside. Following the introduction of "fixing farm output quotas for each household," the land system involves two issues: property rights and scale. These days land property rights are still unclear. What then should the next phase in land reform be? What we are interested in now is not what kind of ownership system, but the efficacy of a particular ownership system. In addition to adhering to the collective ownership of land, only three things really matter in the land system: clarify the ownership of land, diversify land uses, and improve land management. There is a lot to be done in each case. Take the clarification of land ownership rights, for instance. As I see it, property rights still exist only in name. At the time of the "three fixings" in 1962, it was decided that rural land belonged to the production team. Later came the fixing of farm output quotas for each household and most class 1 production teams were withdrawn, so land came under the management of the old class 1 production brigade, that is, the current class 1 administrative village. Did the production team ask the production brigade to manage the land on its behalf? Or did the land belong to the production brigade? Legally (according to the Civil Law general rule and land management law), rural land belongs to the peasants' collectives. But who makes up the collectives? Specifically who is a legal person representative? Who has the power to dispose of the land or to take possession of the income derived from the land? Since property rights are so fuzzy, both the transfer of land and the distribution of income derived from land are ill-defined. Nowadays rents and taxes are one and the same thing, which has something to do with the arbitrary apportionment of expenses. Under the contracted management system, the collective retention of profits can be regarded as land rent payable to the land owner. Agricultural taxes consist of overt taxes and hidden taxes, including all sorts of arbitrarily apportioned expenses. When ownership rights of land are ill-defined, it is hard to decide who owns the land, who takes possession of income derived therefrom, and who can dispose of the land. How then can peasants plan long-term? Moreover, the nontransferability of land is related to the absence of a comprehensive welfare security system in the countryside and to local government policies and regulations. In economically developed areas, we should make it possible for land to be concentrated in the hands of the best growers. In reality, it is precisely in those localities that the transfer of land is prohibited. Also, although we rightly call for scale management under given conditions, the trouble is that peasant households perceive land as welfare. And we have nothing to replace land as welfare. Only when the right kind of substitution mechanism is in place will peasants part with their land. All these issues bear further research and experimentation.

6) Comprehensive County-Level Structural Reform. The functions of county-level governments must be transformed. First of all, this is an issue of reforming administrative organizations and the superstructure. Of the nation's 2,181 counties, 1,091 are running a budget deficit, characterized by over-staffing, bloated bureaucracy, buck-passing, and inefficiency. County-level organizations should be reduced and the number of personnel should be cut in order to raise efficiency. The deeper we go in restructuring the economic system, the more we are convinced that without corresponding reforms in the superstructure many things just cannot be done or that they will be done with quite unexpected results. This matter involves government functions and sectoral interests, so it must be reformed. Specific methods may vary from place to place. Counties in Shandong, for instance, have quite different experiences from those of Zhuozhi in Inner Mongolia, Shi County in Shanxi, and Huarong in Hunan. In the future we need to amplify this piece of reform. Rural reform is not limited to production relations but also to the superstructure. We need to enrich the spiritual civilization with aid for the poor, women's and children's rights, efforts to improve the quality of drinking water, so on and so forth. All this is basic to achieving economic prosperity and building a social civilization in the countryside.

Bumper Harvest of Wheat Results in Lower Prices

93CE0238A Beijing JINGJI RIBAO in Chinese
11 Dec 92 p 3

[Article: "Bumper Harvest of Wheat, Wheat Prices Lack Vitality To Rise"]

[Text] Our summer grain production is better than predicted. According to statistics of the agricultural information system under the Ministry of Agriculture, the harvest area this summer was 478.73 million mu across the country. Although the planting acreage slightly decreased, the total yield was close to that of 1990, which recorded a bumper harvest. Practical appraisals conducted by the Ministry of Commerce in 13 summer grain producing provinces show that the wheat yield this year was 81.145 billion kilograms, an increase of 3.655 billion kg over the previous year. In addition, quality is better than the previous year's, and wheat above medium grade accounts for more than 70 percent.

The good harvest led to an increase in wheat purchase volume at both parity and negotiated prices, an ample stock of wheat at both parity and negotiated prices, an abundant surplus of grain in society, and supply exceeding demand in the wheat market. Meanwhile, owing to insufficient funds on the part of grain management units, whose purchase depends upon expected sales, the price of grain purchased earlier by the state and that of grain retained by townships were relatively low, only about 0.72 yuan per kg; later, prices for state purchase went up some, currently at about 0.76 yuan per

kg. To promote sales, grain management units of production areas sent a great number of personnel to consumption areas to dump grain at competitive prices. Due to abundant sources of goods, the consumption areas tried to force prices down in purchase. The average transaction price of the third class white wheat in the Zhengzhou Grain Wholesale Market in the first half of this year was 859 yuan per ton; entering the third season, the prices gradually retrogressed. By 20 November the highest transaction price of the third class white wheat was 810 yuan per ton, a decrease of 5.7 percent over the average price during the first half of this year.

Therefore, the Zhengzhou grain market estimated that the lack of vitality in this winter's wheat price rise was affected by seasonal variations in price, and prices will go up by a narrow margin based on concurrent levels.

Price, Enterprise Reform To Improve Grain Circulation

93CE0238B Beijing JINGJI CANKAO BAO in Chinese
10 Dec 92 p 1

[Article by reporter Li Wenru (2621 2429 5423): "Taking Price Reform as the Breach and Enlivening Grain Enterprises as the Focus—Reform of Grain Circulation Will Take a Big Step"]

[Text] According to the national grain work conference convened in Beijing on 9 December, the key contents of our grain circulation system reform in the next few years will be: Take price reform as the breach, transformation of the enterprise management mechanism as the focus, the strengthening of state macroeconomic regulation and control mechanism as the guarantee, and market economy mechanism as the goal, to gradually achieve grain commercialization and management geared to the market, and promote the modernization of the grain industry.

Bai Meiqing [4101 5019 3237], Vice Minister of Commerce and Director of the State Administration of Grain Reserves, pointed out in his speech that 1992 was a year in which grain work advanced with big strides. On the basis of the readjustment of grain prices last year, the selling prices of grain and oil went up once again this year, thus realizing a parity between purchase and selling prices. Based on this, the pilot programs for releasing controls on grain prices and management are being rapidly unfolded from experiment areas to regions. Especially beginning from the second half of the year, development speed has apparently been quickened. According to incomplete statistics, now more than 400 counties (cities) across the country have released controls on grain prices, approximating 20 percent of the total number of counties, involving more than 200 million people. This is unprecedented in terms of the greatness of pace in price reform and the extensiveness of its impact. This has played a motivating role in the reform of the entire national economic system.

With the continuation of the reform of the purchase and selling prices for grain and oil, price subsidies have been reduced by a big margin. From January to October subsidies for variations in purchase and selling prices of grain and oil were reduced by 13.84 billion yuan compared with the same period last year. Even after being compensated and subsidized by the increase in interests on the expenses for state grain and oil reserves, a subsidy reduction of 9.5 billion yuan still occurred during the same period of last year. Grain and oil at negotiated prices also enjoyed a fairly big rise in prices and losses were reduced by a big margin. Compared with the same period of last year, from January to October there was a reduction of 1.1 billion yuan of losses incurred in the management of grain and oil at negotiated prices throughout the country.

Bai Meiqing said that in the face of the rapid development of market economy since the party's 14th national congress, the task of reforming the grain circulation system has become more arduous. During the Eighth Five-Year Plan, the priority is to actively and reliably release controls on grain prices and management. What should be emphasized is that releasing grain prices does not mean hands-off. It does not mean that major channels are not needed. Governments at all levels must strengthen macroeconomic regulation and control and management without the slightest slackening. The general principles are: Unifying policies, giving guidance by categories, making decisions by individual provinces, and advancing step by step. Second, attention must be paid to the handling of the relationships between grain and finance, between central and local governments, provinces (regions) and counties (cities), and relationships among the state, producers, consumers, and managers. In the future the state will be responsible only for the differences between grain revenues and expenditures of various provinces. The volume and varieties of purchase and selling and expenditures of various items will be readjusted and arranged by localities themselves. Third, the focus of attention must be placed on continuing to help farmers develop grain production. For the state to control some sources of grain, all kinds of favorable methods and flexible policies are needed to support the stable development of grain production in major production areas. As for the tasks of purchase under the system of fixed quotas, the method to be taken in general will be to guarantee quantity rather than price, which will fluctuate with the market. Fourth, importance must be attached to intensifying efforts to cultivate and develop markets and continuing to improve the three-grade grain market system in which the state grain wholesale market serves as the center.

In terms of reform of grain enterprises themselves, Bai Meiqing pointed out that promoting the transformation of enterprise management mechanism and completely gearing them to the market as soon as possible is the focal point of reform. It is also the key issue in enterprise reform. In choosing management styles, various localities ought to adopt flexible and varied methods in

accordance with the characteristics of grain enterprises. Large- and medium-sized enterprises will advocate contracting by collectives and mortgage contracting by all members of the enterprises, whereas small enterprises ought to be flexible. Leasing, contracting by individuals, or other forms can be adopted. Pilot programs for a share-holding system should be actively carried on in various localities.

Article Views Sichuan Rural Financial Reform

93CE0258A Chengdu SICHUAN RIBAO in Chinese
22 Dec 92 p 2

[Article by Ming Yuncheng (2494 0061 2052): "Advancing Rural Financial Reform Around a Market Economy"]

[Text] A big problem the agricultural banking system faces throughout Sichuan is how to advance rural financial reform around the general goal of establishing a socialist market economy in order to better serve the development of Sichuan's rural commodity economy and the revitalization of agriculture, and to achieve by the end of the Eighth Five-Year Plan the goal of an average net income of 720 yuan per capita by all farmers throughout Sichuan, and of rural areas enjoying a comfortable life with an average per capita income of 800 yuan.

The formation of a market mechanism will have to go through continuous development and improvement. Therefore, on the basis of understanding the role and characteristics of a market mechanism, we ought to take measures and explore ways by which rural finance can be adapted to the mechanism of a socialist market economy. In my opinion, rural financial reform means advancing the enterprise management of professional banks and developing toward the management patterns of commercial banks. At present, the stress should be placed on handling well relationships among five areas.

Handling well the relationship between business of a policy nature and that of a management nature. Prior to the complete formation of a market economy mechanism, rural financial departments will have to guarantee the fulfillment of the state assigned tasks of a policy nature, and actively expand their business fields and work hard to improve the management situation of agricultural banks as well. By the end of last November, the revenues of a management nature of the agricultural banking system in Sichuan were 10 percent higher than last year. However, this proportion is still very small, and needs to be vigorously developed to suit the requirements of financial reform and market economy. As for business of a policy nature, we must adhere to the principle that loans of a policy nature must have fund sources of a policy nature, and actively explore new ways to place loans of a policy nature under the practices governing business of a management nature. For instance, as for loans to help the impoverished, the provincial agricultural bank has started to consult with

the provincial office for relieving poverty and development in order to jointly establish a company for poverty relief and development. Various localities can become shareholders with their funds for poverty relief and other funds, and based on the number of their shares arrange the labor force of poverty areas. Under the prerequisite of doing well in carrying out poverty relief loans of a policy nature, funds will be pooled to support highly efficient programs. Profits earned will be divided by shares and returned to impoverished areas to support poverty relief of a development nature. By so doing, the policy of state credit for poverty relief will be implemented, the economies of scale of relief funds developed, and the safety of credit funds guaranteed as well.

Handling well the relationship between traditional and new businesses. In the course of the planned economy being transformed into a market economy, both traditional and new businesses of banks should not be discarded. On the one hand, as for traditional businesses, we must still persist in the principle of "plans must be striven for, scales aimed at, and work unslackened." On the other hand, we must actively open new businesses and gradually change the status quo that the revenues of agricultural banks' management mainly depend upon traditional businesses. New businesses have come into being as a result of adapting to the needs of a market economy. Although new businesses are, to some extent, restricted by state macro-economic regulation and control, their services are primarily market economy oriented. Market economy demands the diversification of financial instruments, the pluralization of targets to be served, and the internationalization of business development. In accordance with these requirements, we should adopt new management practices that will fully give expression to flexibility and autonomy. Agricultural banks at various levels ought to discuss how to integrate government behavior, enterprise behavior, and bank behavior into a new type of production relations; and how to integrate industrial capital, financial capital, and social capital into new productive forces. In the beginning of August, the provincial agricultural bank set up the "Commonwealth of Sichuan Leshan Financial Capital." Now 73 financial institutions from 19 provinces, cities, autonomous regions, and cities individually listed in plans have joined this commonwealth. Funds for joining the network have reached 180 million yuan, and the accumulated financial capital amounts to 1.2 billion yuan. It has become one of the five big markets of funds. Further development will lead to the establishment of a new form of financial capital—funds company. Since this year, according to statistics of agricultural banks in some cities, districts, and prefectures, the proportion of new businesses in the total sum of capital has been raised by nearly five percent. These are all very good explorations.

Handling well the relationship between domestic funds and foreign funds to achieve the combination of raising both domestic and foreign funds. To a great extent, competition among financial industries is competition

for funds. Without financial strength as a guarantee, it is very difficult to gain the initiative in competition. Therefore, we must continue to strengthen the work of organizing and raising funds. By the end of October, agricultural banks across Sichuan had a net increase of 3.322 billion yuan for various deposits compared to the beginning of the year, and ranked sixth in the volume of net increase in the that year of the agricultural banking systems throughout the country. With enterprises being pushed to the market, the dispersed circulation of social funds will be unavoidable. Rural financial departments at all levels must participate in the dispersed circulation and enter the market. In terms of the means of fund-raising, we must change our past practice of organizing funds by solely relying on residents' deposits and administrative means. We must guide and raise funds by participating in investment, issue debentures for others, establish stock exchanges, and so forth. Under the prerequisite of making good and flexible use of domestic funds, we should strengthen the introduction of foreign funds, participate in the international fund circulation, and gradually change from unified international liability management to independent undertaking of international liabilities.

Correctly handling the relationship between domestic and international businesses. With our seat as a signatory state to the General Agreement on Tariffs and Trade to be restored, domestic and international economies will be bound to gradually amalgamate. Therefore, only

if financial industries participate in the huge international financial circulation, go abroad step by step in a planned way, set up financial institutions, and go to the international financial markets to understand and deal with finance, can we learn and use as reference the advanced experience of international financial management and expand our businesses. At present, the international business department of the provincial agricultural bank has been in active contact with foreign businessmen, striving to establish as soon as possible branch institutions in some countries and regions such as Hong Kong and Russia, and to absorb more foreign exchange deposits.

Correctly handling the relationship between agricultural banks and rural credit cooperatives. In the reform of enterprises, agricultural banks must promote continuation of the reform of credit cooperatives. Reform of rural credit cooperatives must be reconceptualized in accordance with the requirements of socialist market economy, and the stress must be placed on helping enliven credit cooperatives. For credit cooperatives to enter the market, they must start to increase legal person shares and expand individual shares, consolidate the strength and flexibility of credit cooperative funds, and promote the transformation of credit cooperatives into a share-holding system. The provincial agricultural bank is preparing to set up in places such as Wanxian and Deyang trans-regional rural share-holding credit cooperatives to be in keeping with migration and development in the Three Gorges and the need of "one continuous line" economic development.

Petroleum Corporation Planning To Invest in Malaysia

*OW1912085792 Taipei CNA in English
0835 GMT 19 Dec 92*

[Text] Taipei, Dec. 19 (CNA)— Malaysia has confirmed that it would sign an investment guarantee agreement with the Republic of China [ROC], removing a major obstacle for the Chinese Petroleum Corp. [CPC] to invest in that country, a CPC spokesman said Friday.

The spokesman said that CPC and Pacific Resources Inc, a unit of the Broken Hill PTY Co of Australia, had agreed to form a joint venture to invest in a refinery in Malaysia, with the condition that they could secure an investment guarantee agreement from the Malaysian Government.

The proposed refinery will have a total investment of \$1.26 billion, with CPC and Pacific Resources each having a 45 percent stake in the joint venture, and Malaysia's state oil firm Petronas coming up with the remaining 10 percent. The refinery is expected to produce 150,000 barrels of oil per day after its completion.

China Steel Corp [CSC], another state-run enterprise that had wanted to invest in Malaysia, will not be immediately affected by the proposed guarantee pact about its decision to invest in the country.

CSC said it made a feasibility study on whether to invest in Malaysia in 1989, but because of the surge in wages and land costs during the period, it had second thoughts about the plan. Besides Malaysia, CSC will now also look into other places for investment.

Scholars View Current Sino-British Controversy

93CM0117B Hong Kong KAIFANG [OPEN MAGAZINE] in Chinese No 72, 18 Dec 92 p 40

[Table by Lin Chun-wan (2651 4783 1238): "Response of Scholars and Authors to Questionnaire on Sino-British Controversy"]

[Text]

| Occupation of Respondents | | author | media adviser | magazine editor-in-chief | political commentator | cartoonist | author | columnist | translator |
|---|--|-------------|---------------|--------------------------|-----------------------|------------|-------------|---------------|------------|
| Name of Respondent | | Han Shan-pi | Chen Yu-hsing | Huang Yu-min | Ho Jia-hua | Ma Lang | Li Ka-cheng | Liang Pao-erh | Meng Ko |
| Questions | | | | | | | | | |
| Attitude toward Chris Patten's political reform plan | Support | * | | * | * | * | * | * | |
| | Object | | * | | | | | | |
| | Onlookers | | | | | | | | * |
| Why did Chris Patten make the political reform plan? | A change in Britain's China policy: | * | | | | * | * | | * |
| | Paving a path for individual political future | | * | | | | | | |
| | Resist Chinese attempts to split the Hong Kong people | | | | | | | | |
| | Based on democratic, free ideas | | | * | * | | | * | |
| Why did the Chinese side adopt an unyielding stand? | Not to be a Li Hung-chang | | | | | | | | |
| | Afraid of peaceful evolution | * | | * | * | * | | * | * |
| | To maintain national dignity | | | | | | * | | |
| | A peaceful transition in Hong Kong | | * | | | | | | |
| Consequences of Chinese criticism of Patten and England | Attack the Hong Kong economy and the peoples' confidence | * | | * | * | * | | * | * |
| | To obtain the peoples' sympathy and support | | | | | | | | |
| | Cause British authorities to beat a retreat | | * | | | | * | | |
| Appraisal of the Chinese criticism of Patten | To reflect a democratic spirit | | | | | | * | | |
| | Uphold the Basic Law | | * | | | | | | |
| | Reenactment of the Cultural Revolution | * | | * | * | * | | * | |

| Occupation of Respondents | | author | media advisor | magazine editor-in-chief | political commentator | cartoonist | author | columnist | translator |
|---|---|-------------|----------------|--------------------------|-----------------------|------------|-------------|---------------|------------|
| Name of Respondent | | Han Shan-pi | Chen Ye-hsiang | Huang Yu-min | Ho Jia-hua | Ma Lung | Li Ku-cheng | Liang Pao-erh | Meng Ko |
| Questions | | | | | | | | | |
| Consequences of accelerating the democratic process | It will affect smooth transition | | * | | | | | | |
| | The Chinese communists will be unable to control Hong Kong | | | | * | | * | * | |
| | Prosperity and stability will continue | * | | * | | * | | | * |
| How will the Sino-British confrontation end? | The British side will yield | | * | * | | | | | * |
| | Governor Chris Patten will be dismissed | | | | | | | | |
| | The Chinese side will yield | | | | | | | | |
| | Both sides will yield somewhat | * | | | | * | * | * | |
| | The Chinese side will take over Hong Kong earlier than originally scheduled | | | | | | | | |
| When do you think the Sino-British confrontation will come to an end? | Around Christmas and the New Year's Day | | | | | | | | |
| | 1993 | * | * | | * | * | | * | * |
| | 1 July 1997 | | | * | | | | | |
| Do you think that Deng Xiao-ping will visit Hong Kong in 1997? | Yes | | | | | | * | | |
| | No | * | * | * | | * | | | * |
| | Absolutely not | | | | | | | * | |
| Where will you be in 1997? | In Hong Kong | | * | * | * | | * | * | |
| | Not in Hong Kong | | | | | | | | |
| | Unable to decide according to my own will | * | | | | * | | | * |

| Occupation of Respondents | | scholar | TV announcer | columnist | professor | columnist | author | editor-in-chief for a newspaper supplement | editor | senior lecturer | |
|---|--|------------|----------------|-----------|--------------|-----------|----------|--|-----------|-----------------|-------|
| Name of Respondent | | Ka To-ming | Mao Meng-ching | Jung Jue | Chen Yao-nan | Chang Fa | Pan Ling | Ho Chin-ling | Huang Liu | Wang Yao-trung | total |
| Questions | | | | | | | | | | | |
| Attitude toward Chris Patten's political reform plan | Support | | * | | | * | * | * | * | * | 12 |
| | Object | | | | | | | | | | 1 |
| | Onlookers | * | | * | * | | | | | | 4 |
| Why did Chris Patten make the political reform plan? | A change in Britain's China policy: | * | | * | | | | | * | * | 8 |
| | Paving a path for individual political future | | | | | | | | * | * | 3 |
| | Resist Chinese attempts to split the Hong Kong people | | | | | | | | | | 0 |
| | Based on democratic, free ideas | | * | | | * | * | * | * | * | 9 |
| Why did the Chinese side adopt an unyielding stand? | Not to be a Li Hung-chang | | | | | | | | | | 0 |
| | Afraid of peaceful evolution | * | * | | | | * | * | * | * | 12 |
| | To maintain national dignity | | | | | * | | | | | 2 |
| | A peaceful transition in Hong Kong | | | | | | | | | | 1 |
| Consequences of Chinese criticism of Patten and England | Attack the Hong Kong economy and the peoples' confidence | * | * | | | * | * | * | | * | 12 |
| | To obtain the peoples' sympathy and support | | | | | | | | | | 0 |
| | Cause British authorities to beat a retreat | | | | | | | | * | | 3 |
| Appraisal of the Chinese criticism of Patten | To reflect a democratic spirit | | | | * | | | | | | 2 |
| | Uphold the Basic Law | | | | | | * | | | | 2 |
| | Reenactment of the Cultural Revolution | * | * | | * | * | | * | * | * | 12 |

| Occupation of Respondents | | scholar | TV announcer | columnist | professor | columnist | author | editor-in-chief for a newspaper supplement | editor | senior lecturer | |
|---|---|-------------|----------------|-----------|---------------|-----------|----------|--|-----------|-----------------|-------|
| Name of Respondent | | Ku Tse-ming | Mao Meng-ching | Jung Jue | Chen Yuen-nan | Chang Fa | Pan Ling | Ho Chin-ling | Huang Liu | Wang Yao-trung | total |
| Questions | | | | | | | | | | | |
| Consequences of accelerating the democratic process | It will affect smooth transition | | | | | | | | | | 1 |
| | The Chinese communists will be unable to control Hong Kong | | | * | | | | | | * | 5 |
| | Prosperity and stability will continue | * | * | | | * | * | * | * | | 10 |
| How will the Sino-British confrontation end? | The British side will yield | * | | | | | | | | | 4 |
| | Governor Chris Patten will be dismissed | | | | | | | | | | 0 |
| | The Chinese side will yield | | * | | | | | | | | 1 |
| | Both sides will yield somewhat | | | * | * | * | * | * | * | * | 11 |
| | The Chinese side will take over Hong Kong earlier than originally scheduled | | | | | | | | | | 0 |
| When do you think the Sino-British confrontation will come to an end? | Around Christmas and the New Year's Day | | | | | | | | | | 0 |
| | 1993 | * | * | * | * | | | | * | | 11 |
| | 1 July 1997 | | | | | * | * | | | * | 4 |
| Do you think that Deng Xiaoping will visit Hong Kong in 1997? | Yes | | | | | | | | * | * | 3 |
| | No | * | * | * | * | | * | | | | 10 |
| | Absolutely not | | | | | | | | | | 1 |
| Where will you be in 1997? | In Hong Kong | | | * | | | * | | | | 7 |
| | Not in Hong Kong | | | | | | | | | | 0 |
| | Unable to decide according to my own will | * | * | | * | * | | | * | | 8 |

Note: Comments given by respondents but not requested in the questionnaire are not included here.

New Monthly Publication Announced

HK2601083593 Beijing ZHONGGUO XINWEN SHE
in Chinese 1211 GMT 25 Jan 93

[By reporters Gan Zhebin (3927 0772 2430) and Lu Tong (0712 1749)]

[Text] Beijing, 25 Jan (ZHONGGUO XINWEN SHE)—A journal sponsored by the Hong Kong and Macao Research Institute of the State Council's Hong Kong and Macao Affairs Office, JINRI GANGAO [HONG KONG AND MACAO TODAY] monthly, will be officially published next April. The trial issue will come off the press next month.

Institute director Zheng Weirong said: With the deepening of reform and opening up on the mainland, economic and cultural ties and personnel exchanges between the mainland on the one hand and Hong Kong and Macao on the other will be increasingly closer. Moreover, Hong Kong and Macao will revert to the motherland in 1997 and 1999 respectively and become special administrative regions of the PRC. Given this situation, people from all walks of life on the mainland, especially party and government officials at all levels, enterprise managerial stratum, and researchers at institutions of higher learning and scientific research institutes, urgently need to have a deeper understanding of Hong Kong and Macao. Therefore, there is a need to

start publishing a journal to introduce Hong Kong and Macao, including the Chinese Government's principles and policies toward Hong Kong and Macao, the political and economic situation in Hong Kong and Macao, and market economic information.

Zheng said: JINRI GANGAO is a comprehensive monthly reporting especially on Hong Kong and Macao and catering mainly to mainland readers. It has been deliberated on for a long time and, as most of its writers are personnel, experts, or academics engaged for a long time in Hong Kong and Macao work, it has considerable authority. The regular columns include News Focus, Economic Talk, Information and Market Quotations, Relations Between Hong Kong and Macao and the Mainland, Bridge Spanning Both Sides of the Strait, Faithful Records of Society, Political Science and Law Field, Culture and Education Square, Pleasures of Life, Entertainment Ring, and others.

It is learned that trial issue No. 1 of JINRI GANGAO will include the following heavyweight articles: "Chris Patten Provokes Sino-British Confrontation," "The Origin and Development of the Hong Kong New Airport Talks," "The 1992 Hong Kong Economy in Retrospect and the 1993 Hong Kong Economy in Prospect," and "Hong Kong's Status and Role in Economic Exchanges Between Both Sides of the Strait."

END OF

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